Austria	Sch22	Indonesia	Rp3100	Portugal	Esc120
Bahrain	Din0.650	Israel	Shk3.50	S.Arabia	Rls7.00
Belgium	BFr48	Italy	L1700	Singapore	S$4.10
Canada	C$1.00	Japan	Y600	Spain	Pta145
Cyprus	C£0.90	Jordan	Fils.500	Sri Lanka	Rup30
Denmark	DKr10.00	Kuwait	Fils.500	Sweden	SKr9.00
Egypt	E£2.25	Lebanon	[illegible]	Switz	SFr2.30
Finland	Fmk7.00	Lux	LFr48	Taiwan	NT$65
France	FFr6.50	Malaysia	Rm4.25	Thailand	Bht50
Germany	DM2.30	Mexico	Pe300	Tunisia	Din0.800
Greece	Dr125	Morocco	Dh6.00	Turkey	L600
Hong Kong	HK$12	Neth	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	Nkr10.00	USA	$1.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,616 Monday August 15 1988 D 8523 A

AFGHANISTAN
Refugees prepare to return home
Page 14

World News

Moscow says half troops have left Afghanistan

The Soviet Union said it had completed the withdrawal of half its 100,000 troops from Afghanistan, a day ahead of the deadline set in the Geneva Accords. The Afghan army is struggling to keep control of areas evacuated by Soviet forces.

Rebel shelling killed 14 people in the towns of Gardez and Khost. Page 14

Gaza Strip curfew

Israeli troops wounded at least 12 demonstrators and imposed a curfew confining most of the 650,000 Palestinians in the Gaza Strip to their homes, as protests and a general strike marked the Islamic new year.

India border clash

Indian border guards shot and killed 11 Pakistanis after they attempted to cross the land border in the Jammu and Kashmir state.

Solidarity clash

Polish police clashed with supporters of Solidarity in Gdansk after ceremonies marking the anniversary of strikes which launched the now-outlawed independent trade union.

Uneasy Burma calm

Burmese cities were reported to be calm after the stepping down of President Sein Lwin on Friday. Further anti-Government protests may be delayed until after a new head of state is named on Friday. Page 14

Belgrade's new bills

Rapid inflation prompted Yugoslavia to announce a new 50,000 dinar ($17.80) banknote, replacing 20,000 dinars as the largest denomination note. Security clampdown, Page 2

Clashes in Egypt

Egyptian police detained 185 people in weekend clashes with Moslem militants in which five people were killed and at least 20 injured.

Paraguay investiture

Paraguayan President Alfredo Stroessner begins his eighth consecutive term in office today, having held unchallenged power for 34 years.

Palme haunts poll

A Swedish public opinion poll suggests the ruling Social Democrats could lose next month's general election because of their handling of the hunt for the killer of Prime Minister Olof Palme. Page 2

Manila hostages free

Communist rebels freed five Philippine soldiers unharmed after holding them in a mountain hideout for 74 days.

Angola rebel claims

Angola's Unita rebels said they killed 21 government troops and nine Cuban soldiers in ambushes last week, the first of a ceasefire negotiated by the Angolan, South African and Cuban authorities.

Sudan flood relief

King Fahd of Saudi Arabia donated $8m from his personal funds to help flood victims in Sudan. Aid appeal, Page 2

Taipei 'no' to Peking

Taiwan turned aside an indirect offer from Peking for talks on the formation of a coalition government that would include Taipei's ruling Nationalist Party. Page 3

Contra border clash

One rebel was killed and two others arrested when about 30 Contras clashed with Costa Rican national guardsmen near the Nicaraguan border.

Hassan backs poll

King Hassan of Morocco, considering new proposals to resolve the Western Sahara dispute, said that a UN-sponsored referendum was the only way to resolve the 12-year-old conflict.

Missing motors

A census of the 7,551 Uganda government cars imported since 1982 found that 5,074 were stolen or written off and only 1,863 of the other 2,477 were still in working order.

Business Summary

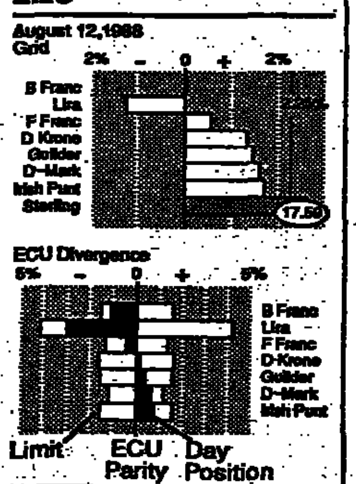
London SE investigates new insider trading fears

LONDON Stock Exchange is investigating a new insider trading scandal following the dismissal of two employees at leading City merchant banks and the resignation of a third last Friday. The three employees are alleged to have passed on or used information about Mecca Leisure's £590m takeover bid for Pleasurama before it was announced on August 4. Page 14

ROLLS-ROYCE has disclosed that it owns the patents on the Hotol concept of a re-usable air-breathing engine for space flight. Page 4

EUROPEAN Monetary System: The French franc was the subject of attention last week, as it weakened against a generally improving D-Mark. The French Finance Ministry did the franc no favours by claiming there was no need to change monetary policy, at a time when interest rates elsewhere were rising. The franc weakened within the EMS, while the D-Mark threatened to become the strongest member of the system.

EMS



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies.

AEROLINEAS Argentinas president, Horacio Domingorena, condemned the Argentine Government's agreement to sell 40 per cent of the state-owned carrier to Scandinavian Airlines System saying the arrangement "prostituted the principle of privatisation." Page 15

THIS WEEK: Figures published tomorrow are set to be the focus of attention in world financial markets this week and could determine the short-term course of the dollar. Financial markets will take note July's US industrial production figures due today. Page 15

HONG KONG: Association of Banks decided at the weekend to raise the local prime lending rate by half a percentage point to 9.5 per cent, effective today. Page 3

WALL STREET is bracing itself for further increases in interest rates, believing last week's discount rate increase will prove inadequate for the task of cooling down the US economy. Page 16

AMERICAN STORES has sold for $305m the Florida division of Lucky Stores, two months after its $2.5bn purchase of Lucky made it the largest US supermarket chain. Page 18

CANADIAN TIRE: Speculation is rising of a bid potentially worth C$2bn (US$1.68bn) for the diversified retailing group, opening a new chapter in the two-year-old contest for control. Page 18

MITSUBISHI Petrochemical, largest Japanese petrochemical group, reported that unconsolidated net earnings in first half of 1988 surged 138.7 per cent to Y9.165bn ($40.2m). Page 18

PARMALAT food empire looks set for an important restructuring next month after long negotiations with Kraft, US foods manufacturer. Page 18

EUROPEAN VINYLS, joint venture between ENI, the Italian state energy group, and ICI of the UK, is to buy three European PVC businesses for an undisclosed sum. Page 18

Mandela's lung complaint improves in hospital

By Michael Holman, Africa Editor, in London

MR NELSON MANDELA, the jailed leader of the African National Congress, who was admitted to hospital with a lung complaint on Friday night, "has shown a noticeable improvement", a doctor said yesterday.

Dr J.G. Strauss, the medical superintendent at Tygerberg Hospital, where Mr Mandela has been treated since his transfer from Cape Town's Pollsmoor prison, said that an examination of tissue from Mr Mandela's lungs showed no evidence of malignancy, "only a chronic inflammatory condition of the pleura (the lung lining)".

This condition could indicate tuberculosis, said another doctor. Mr Mandela was "without pain or discomfort," added Dr Strauss.

Mrs Winnie Mandela visited her husband for 40 minutes on Saturday. "Winnie was shocked ... but I don't know what shocked her," said the family lawyer, Mr Ismail Ayob.

Hopes that the South African Government might release the 70-year-old Mr Mandela on compassionate grounds were immediately dampened, however, by Mr Pik Botha, the Foreign Minister.

Speaking on Saturday in Vienna, where he had been holding talks with US, Soviet and British officials on the possibility that Pretoria might sign the 1970 nuclear non-proliferation treaty, Mr Botha said he had yet to see the medical reports.

But asked whether the Government would consider releasing the ANC leader on compassionate grounds, he replied: "Should you release any person ... with that background, and that person is not prepared to abandon violence?"

Mr Mandela was jailed for life in 1964 on charges of sabotage and planning the overthrow of the white government.

His release could provoke killing, Mr Botha continued, and if that led to a rearrest "where does that take you?"

Bush campaign seeks vital spark from Reagan's last hurrah

Lionel Barber in New Orleans

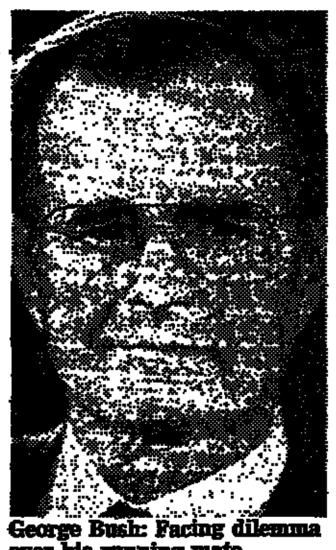
VICE-PRESIDENT George Bush is looking to the huge popular appeal of President Ronald Reagan, billed as the star attraction at today's opening of the Republican national convention, to give his presidential campaign the sparkle it has so far lacked.

During four days of carefully choreographed events and speeches, Mr Bush, who still trails in the polls, will be endorsed as the Republican nominee to challenge Governor Michael Dukakis of Massachusetts in the November election.

Tonight, in what is certain to be an emotional and festive occasion, Mr Reagan, 77, will deliver a last hurrah to more than 3,000 delegates gathered in the giant Superdome football stadium, the site of the convention.

Mr Bush's task is to convince sceptical delegates and a watching American public that he is a worthy successor to the outgoing President.

Doubts remain about Mr Bush's ability to maintain the broad-based Reagan coalition, which led to two Republican landslide victories in 1980 and 1984. These doubts grew over the weekend when it became clear that the Bush campaign had caved in to conservative activists on several key policy issues.



George Bush: Facing dilemma over his running mate

The Republican Party platform includes a call for a constitutional amendment to ban abortion under any circumstances, including rape or incest. This plank will hurt Mr Bush's attempt to improve his already poor standing with women voters.

Other conservative planks included a commitment to rapid deployment of the SDI "Star Wars" anti-missile system, and a refusal to endorse the equal rights amendment for women or non-discrimination against AIDS victims.

Mr Bush had earlier called for specific language in the Republican platform because he wanted to set out differences with the Democrats, who last month approved a very general platform. This tactic may have backfired because it allowed conservatives leverage on social issues, where Mr Bush has sought to steer a middle course.

Conservative forces have also pressured Mr Bush on the selection of a running-mate. But, with the vast majority of delegates under their control, the Bush campaign is determined to remain independent.

The Vice-President has a short-list with the front runners believed to be Senator Robert Dole of Kansas, Senator Alan Simpson of Wyoming, Congressman Jack Kemp of

Continued on Page 14

Footprints in the sand, Page 12

Burma riots may continue despite Sein Lwin's exit

By Richard Gourlay in Bangkok

BURMESE protesters have called for more country-wide demonstrations if their demands for democracy to replace the one-party socialism of the past 26 years, are not met.

But some of the demonstrators – largely students – seemed prepared to postpone further disturbances until next Friday when the executive committee of the Burma Socialist Programme Party (BSPP) is expected to choose a successor to U Sein Lwin as State President and Chairman of the party.

U Sein Lwin was forced to resign on Friday after more than five days of bloody clashes between protesters and the army in the capital, Rangoon, and other cities.

It is thought that during the disturbances as many as 1,000 people may have been killed.

Following his departure, tension eased in Rangoon according to diplomats.

Protesters removed barriers and road blocks and bus services started to function again.

However, troops remained on duty in downtown streets near government buildings and the city hall where the shooting started a week ago.

As posters appearing on walls in Rangoon testify, feelings are still running extremely high and violence could easily recur before next Friday.

The posters call for U Sein Lwin to be tried in court for his part in the brutal suppression of riots and for general elections for multi-party democracy within six months.

Other posters demand action against soldiers who opened fire on unarmed crowds at the hospital in Rangoon, killing medical workers, and compensation for riot victims and the release of all political prisoners.

Behind these immediate demands lies a pervasive, if unfocused desire for a new government to begin economic reform.

Rice prices have risen by 400 per cent this year, and the shortages and consequent hunger have been one of the main reasons behind the apparently spontaneous uprising.

At least one main faction of protesters is known to be profoundly sceptical that U Sein Lwin's resignation will bring about a real change in the system of government and the coterie of ageing army officers who run it.

This group has called for a resumption of demonstrations against the Government today.

However, there is a distinct lack of co-ordinated leadership among the protesters, and it remains to be seen whether the sceptics or those who are prepared to wait will prevail.

According to diplomats, U Sein Lwin's resignation leaves the system intact; public pressure is unlikely to ease before something is done to tackle soaring rice prices and food shortages.

Burmese exiles in Bangkok who are in touch with protestors in Rangoon go further.

They expect that another army man will be elected by the party as the new leader on August 19.

The exiles say this will be unacceptable to the protestors.

They quoted state-controlled Radio Rangoon, which instead of displaying contrition following the suppression of the riots last week, claimed students were apologising to monks for having demonstrated against the Government.

However, the Burmese exiles said this was unlikely to have happened and said the Government was using propaganda to try to defuse opposition.

Maxwell weighs anchor for the New World

By Andrew Hill in Corsica

SHOULD you be invited for lunch on Mr Robert Maxwell's yacht, remember to wear clean, undarned socks.

The 13-strong crew of the Lady Ghislaine wears neat white deck shoes, but everyone else has to pad around in stockinged feet, including the 65-year-old chairman and chief executive of Maxwell Communication Corporation, which late on Friday revealed the details of its $2.35bn bid for Macmillan, the US publisher.

"I am on a mixture of holiday and business," said Mr Maxwell the next day, reclining massively in the air-conditioned stateroom of the 55-metre cruiser, and opening a press conference which was unorthodox, even by Maxwell standards.

For one thing, he flew six journalists in an executive jet from Heathrow to Bastia, north-east Corsica, where the yacht – bought from the Khashoggi family by Marine and Aviation, a wholly-owned subsidiary of Mirror Group Newspapers – is moored.

Once on board we added our names to the list in the visitors' book, which included actor Michael Caine and his wife Shakira, Frank and Barbara Sinatra and Mr Kirk Kerkorian, Hollywood financier.

The small talk was of babies, Mr Maxwell having just become a grandfather for the fifth time, in the same week that the Duchess of York added a princess to another dynasty.

On request, a courtier produced Saturday's Daily Mirror with its front-page picture of the baby – York, that is, not Maxwell – and the assembled company paid homage to the colour reproduction.

Later, as lunch was prepared on deck, we waited for the media baron, who aims to make MCC one of the top 10 international information and communications companies, to explain the logic of his offer for Macmillan. Just switching the publisher's printing to MCC plants would generate another $100m a year for the company, according to Mr Maxwell.

"I also wanted to prove that the MCC board was perfectly capable of mounting such a bid in my absence," he added.

This uncharacteristic self-effacement was not entirely convincing. The Lady Ghislaine (named after Mr Maxwell's youngest daughter) is linked by fax, telephone and satellite to the rest of the Maxwell empire. Deck phones are pro-

Continued on Page 14

Soviet officials dig in to preserve their privileges

By John Lloyd in Moscow

THERE IS A bad situation in Krasnoyarsk. The trade promotion enterprise will not come in its cars. Its Volga, pride of the fleet, is used by its white-collar workers for joyriding. Its two Zhigulis are in another town.

The bread production plant is smarter. It has got its fleet off the books: but only by transferring the cars to its subsidiaries. This is not perestroika, Comrades.

No, it is privilege digging in. In February this year, the Council of Ministers ordained that the tens of thousands of cars at the disposal of soviet managers and officials should be cut by between 20 and 40 per cent. Some organisations – such as ministries, institutes, soviets – were given targets and told to fulfil them by July 1.

Others, such as plants and agri-combines, were told that their cost would come out of the social fund, used to build flats, nurseries and clinics.

Yesterday the newspaper Socialist Industry published an investigation of how the company car was going. For the most part, the answer is: it still is.

Krasnoyarsk is among the worst. Of its 500 official cars only 13 have found their way to the commission shops which market them.

Rostov is little better. It was supposed to lose 130 of its 407 chauffeur-driven perks, and has sold off only 22. The militia stepped in to unscrew the number plates from 57 cars, thus rendering them unlawful.

In Moscow, matters are different: the ministers can look out of the window and check on the diminishing ranks in the car parks.

Irish test for UK regulations

By Richard Waters in London

FINANCIAL SERVICES regulators may be unable to prevent unauthorised overseas companies selling to UK investors.

Until this weakness in the regime is tackled, investment firms which fail to gain authorisation to operate in the UK will be able to sidestep the regulations by moving their operations out of the country.

Vandersteen Associates, a futures and commodities firm based in Cork, Republic of Ireland, last week provided one of the first tests of the regulators' powers in this area when it sent marketing brochures to 5,000 prospective UK clients.

According to a Cork-based employee, Vandersteen's computer-based trading system "has been producing some incredible results" over the past five years.

The Securities and Investments Board, the UK's chief investment regulator, said: "If they are direct mailing people here, they are marketing in the UK, which is an authorisable activity. There's no doubt, in that case, that they are breaking the rules. The difficulty comes on the enforcement angle."

The only sanction available to the SIB is to reprimand the firm publicly – an exercise of limited value.

The SIB is nearing mutual assistance agreements with regulators in four countries, and plans a further 36 similar bilateral treaties. But these are likely to be of use only if the firm concerned has broken the investment rules of its host nation, which are virtually certain to be less severe than the UK's all-embracing Financial Services Act.

UK firms refused authorisation to carry on investment business are likely to move their operations abroad.

The problem is not new. Barlow Clowes International, the offshore arm of the Barlow Clowes group, advertised in a UK national newspaper, even though it was not authorised by the Department of Trade and Industry to carry on business in the UK.

There is one hidden sanction against firms operating outside the scope of the Financial Services Act: any contracts they enter into will be unenforceable.

CONTENTS

THE MONDAY INTERVIEW

John Hume, leader of Northern Ireland's Social Democratic and Labour party, is more optimistic than ever about the province's future, in spite of an increase in sectarian violence in the past few months
Page 30

Thailand: Nurturing a unique mix of growth and democracy 2
Management: Crosfield's graphic example of an organisational balancing act 8
Editorial comment: Trade fog over the Atlantic; British Gas: 12
Republican convention: George Bush strives to leave a footprint in the sand 12
West Germany: A consensus in search of a crisis 13
Lex: Europe's slow man picks up speed: 14
The Business Column: Stoking up the debate on international brands 30

Overseas	2,3	Crossword	20	Lex	14	Stock Markets	27
Companies	18	Currencies	26	Lombard	13	-Wall Street	27-29
Britain	4-8	Editorial Comment	12	Management	8	-London	23-25
Companies	19	Financial Diary	10	Monday Page	30	US bonds	16
Arts-Reviews	11	International bonds	17	Money Markets	26	UK Gilts	15
World Guide	11	Intl.Capital Markets	16-18	Observer	12	Unit Trusts	20-23
		Letters	13			Weather	14

OVERSEAS NEWS

Thais nurture mix of growth and democracy

Peter Ungphakorn, in Bangkok, reports on the appointment of a new cabinet

THE DISMAY that has greeted Thailand's new Government represents a painful dilemma for both Thais and foreigners who have argued that one of the country's strengths has been its *developing democracy*.

With one of the fastest economic growth rates in the world, expected expected to be up to 9 per cent this year, Thailand compares favourably with the newly industrialising countries (NICs) or aspiring NICs among its neighbours, such as the Philippines, Indonesia, Malaysia and even Singapore.

Explanations for the economic resilience have usually included reference to Thailand's recently opened-up political system that includes one of the freest presses in Asia, and the tight rein on spending that has kept Thailand away from serious debt problems.

The question now being asked is whether Gen Prem Tinsulanonda, the 68-year-old former Prime Minister, was able to hold the economy and the Government together for eight years precisely because of the least democratic aspects of his Government; his success may have been based on the ability to appoint non-elected finance ministers and shield them from voters' demands for more spending.

There are also fears that corruption and cronyism, always present but latterly somewhat restrained, could get out of hand. Worries are tempered by the strength of the economy, the Government's healthy financial position and the hope that the new cabinet will appreciate its new responsibilities.

Gen Prem was installed in 1980 almost two years before he retired as army commander and has remained in office without even standing for election. He was able to do that because the military inspired constitution allows cabinet members to be appointed from outside parliament. Gen Prem put his appointees in the key ministries handling security and economic policy: defence, interior and finance.

Now, for the first time in 12 years, the new 66-year-old Prime Minister, Maj Gen Chatichai Choonhavan, and all but one of his colleague – the Government's legal expert – are elected MPs. Paradoxically, this seems to be the problem. Gen Prem's reputation for probity imposed some restraint on the greed of his cabinet colleagues, but it also provided a contrast between the cleaner image of his appointees and the scandal-prone MP-ministers many of whom are back in the new cabinet.

Mr Banharn Silapa-Archa, Secretary General of Gen Chatichai's Chat Thai party is now industry minister, with a key role to play in energy and large projects such as the petrochemicals complex being built on the eastern seaboard. Even though Chat Thai is usually described as business-oriented, some sections of the business community are uneasy about the prospects.

In the last cabinet Mr Banharn was communications minister and involved in disputes over scrapped contracts with Van Hool, the Belgian bus manufacturer, and Bouygues, the French construction company, his ministry also awarded to a leading party figure a crane monopoly at the port of Bangkok that threatened severe disruption to the flow of trade.

His replacement is Mr Montree Pongpanit, secretary general of the Social Action Party, the second largest after the July 24 general election.

Mr Montree will be responsible for multimillion baht infrastructure projects such as the new deep sea port on the eastern seaboard and Thai International Airlines' purchase of new generation jets.

He spent an eventful two years at the commerce ministry in the last cabinet, amid some controversy over Government rice deals and tapioca export quotas that were alleged to have favoured certain companies.

Some commentators are willing to give the new Government a chance, Japanese, Taiwanese and other foreign investors who have flocked to Thailand in recent years are said to be waiting to see what happens. But critics point to the scandal-prone figures that remain in the new cabinet, and to the way the portfolios were shared out, as an indication that the politicians are likely to follow there old habits rather than reform.

The appointment of the new finance minister, Mr Pramual Sabhavasu, is a case in point. He is another important financer of the Chat Thai party and was industry minister before the general election. Reporters covering the beat say he had difficulty grasping complex issues.

Some, however, see virtue in his appointment. They place their trust in the senior ministry and central bank officials and argue that because he is a newcomer to macroeconomic policy, Mr Pramual will be more receptive to the advice he is given.

His first statements suggest he will do just that, perhaps to prove his critics wrong. He has indicated that the basket of currencies used to fix the baht's value is likely to remain, and his comments about avoiding debt suggest any spending increases will be kept under control even though Thailand's rapid economic growth is swelling Government revenue even more rapidly. He also said tentatively that he thought the $1bn per year ceiling on new Government foreign borrowing should stay.

His test will come when his cabinet colleagues seek more funds for their pet projects.

The attitude of the military to all this is unclear. They have their own problems including splits and the adjustment to the slimmer and more professional armed forces envisaged by their supreme commander, Gen Chavalit Yongchaiyudh, who is also army commander.

Senior officers have pledged their support for Gen Chatichai whose army career ended in conflict 30 years ago. But misbehaviour by the politicians could always provide an excuse for a coup if some faction feels it has sufficient need – and strength – to assert itself. That would not necessarily lead to cleaner government.

Analysts are debating how long the new Government will last. A key period will be next month, when the annual reshuffle of top military officers is due. That is almost routinely a time of tension. The optimists believe the politicians have just spent too much money in the general election to do anything that would prevent them remaining less than a year.

New for old: Prem Tinsulanonda (left) replaced as Prime Minister by Chatichai Choonhavan

Gunfire gives way to birdsong in the Gulf

From Khorramshahr, **Edward Mortimer** reports on Iran's battlefront, a week before the ceasefire

WITH A WEEK to go until the Iraq-Iran ceasefire officially takes effect, shooting had not quite ceased by Saturday morning when the Iranian authorities took a busload of foreign academics and journalists into the ghost city of Khorramshahr.

Every few minutes a dull crump in the west could be heard, as the two armies continued a desultory exchange of artillery fire, and our hosts felt our security would be at risk if they took us to the waterfront where the river Karun flows into the disputed Shatt al-Arab waterway and Iraqi territory can be seen only a few hundred yards away.

According to revolutionary guards we spoke to, however, there has been no serious fighting on this front since August 4, when they beat back the last Iraqi thrust on to the Ahwaz-Khorramshahr road at Hoseiniyeh. As we drove along this road, we were shown burnt-out tanks and armoured personnel carriers, which were supposed to prove the Iraqis had been forced back, and had not withdrawn voluntarily as they claimed. However, what it proved, if anything, was that Iraq had occupied about 45km of the road in its last offensive after July 18 and come as close as 40km to Ahwaz, the provincial capital.

Voluntarily or otherwise they have since withdrawn and the front has moved back westward. The road takes on the appearance of a frontline only at the Khorramshahr end, with newly sandbagged positions, many of them occupied by Iranian soldiers; armoured cars are dug into the earthwork that runs along the western edge of the road, their guns pointing westward. Underneath the vehicles the crews have dug shelters and put down carpets, to give themselves some refuge from the blistering August sun. (Temperatures go as high as 46C.)

In Khorramshahr itself, the silence is eerie, broken only by birdsong and distant and intermittent cannon. The town used to be home to at least 200,000 people and has been completely deserted since it was recaptured from the Iraqis in 1982. There is not a single habitable building in it; every house is smashed beyond repair, the contents either removed by the inhabitants when they fled in 1980, looted by the Iraqis or simply destroyed in the 45 days of bitter street fighting which it took the invaders to eliminate Iranian resistance.

Everywhere there are ramparts made mostly of rubble from the shattered buildings – bulldozed deliberately by the Iraqis for that purpose, according to our hosts. Only the central mosque, scene of a famed last stand by 50 or so defenders, has been rebuilt as a symbolic gesture of defiance – only to suffer new damage from the shelling later in the war. *Rebuilding the city is one* of the many tasks for Iran if the ceasefire leads to a lasting peace, and it will have to start with a complete levelling of the site.

At the moment, the defenders of Khorramshahr remain on their guard. Mr Mohammed Hosein Imami – aged 38, a *basij (volunteer)* "from the very beginning" – does not expect to go back soon to his pre-revolutionary existence as a bank clerk in Tehran.

"We have to keep in readiness. Our enemy is very devious," he says. Neither he nor his younger comrades express any enthusiasm for the ceasefire.

● A British envoy sent to Iran to help negotiate the release of three Britons held hostage in Lebanon has had several rounds of talks with Iranian officials in Tehran.

Mr David Reddaway, the British official, described his talks as "useful." He also discussed the fate of Britons held in Iran on spying charges. The official Tehran Times newspaper yesterday said Iran would "spare no effort" to facilitate the release of British hostages.

Sacked journalist faces US insider trading inquiry

By **Roderick Oram** in New York

BUSINESS WEEK, the US magazine, has dismissed Mr Rudy Ruderman, a senior journalist, for ignoring its rules requiring staff to disclose all their stock holdings.

McGraw-Hill, Business Week's publisher, and the New York Stock Exchange are also investigating whether Mr Ruderman was involved in insider trading based on advance knowledge of companies mentioned in the magazine's *market column*.

The magazine recently uncovered unrelated cases of seven printing employees who profited from the column before it was publicly available.

Mr Ruderman, 69, had been broadcast editor since 1981. Working alongside the magazine's reporters in New York, he made nine 90-second broadcasts a day on radio stations in New York and other cities.

Business Week said there was no evidence that Mr Ruderman used the programmes to promote stocks he held.

Mr Robert Landes, McGraw-Hill's general counsel, said the company had been alerted to Mr Ruderman's trading by the New York Stock Exchange. It had been tipped off by a stockbroker who said Mr Ruderman bought shares in companies shortly before they were mentioned in the magazine.

'Only one reprimand' to follow Iran Air shooting

By **Nancy Dunne** in Washington

THE PENTAGON yesterday refused to comment on a report that only minor disciplinary action against one US naval officer is being considered after the accidental shooting down of an Iranian Airbus on July 3.

According to The Washington Post yesterday, a navy board has concluded that an operations officer aboard the USS Vincennes bears most of the responsibility for the mistakes which led higher officers to believe that the airliner was an Iranian F-14 fighter.

The board's recommendations are being reviewed by Admiral William Crowe Jr, chairman of the Joint Chiefs of Staff, who may order more disciplinary action or less.

Pentagon investigators have found little accuracy in the initial reports about the incident. They have concluded that a series of human errors, rather than equipment failure, led to the faulty identification of the airliner, which carried 290 people to their deaths.

Admiral Crowe, who had the job of announcing the accident, said the ship's captain had apparently acted properly. According to the Post, the navy board considered and then rejected recommending action against several high-ranking officers, including Rear Admiral Anthony Less, commander of the Gulf task force.

The board instead recommended a letter of reprimand to the operations officer.

S Africa 'welcome to sign' nuclear treaty

By **Michael Holman**

THE HEAD of the International Atomic Energy Agency yesterday welcomed the possibility that South Africa might sign the 1970 nuclear non-proliferation treaty.

Dr Hans Blix, director-general of the agency, was responding to comments by Mr *Pik Botha, South African Foreign Minister*, after the latter had ended talks in Vienna with British, Soviet and US officials. Mr Botha told journalists he believed Dr Blix "doesn't want us to be part of the agency." He did not say whether South Africa would sign the treaty.

South Africa already allows safeguards inspections on two plants with French and US technology, but does not allow the agency's inspectors access to the Palindaba uranium enrichment plant, which can make material needed for nuclear weapons.

Dr Blix, in a statement *issued in response to* Mr Botha's remarks, said: "I would welcome a South African adherence to the treaty . . . the agency would administer the safeguards in South Africa in the same way as is done in other countries."

Mr Botha had taken the opportunity to provide the first official confirmation that South Africa has the capacity to make nuclear weapons, something that has long been assumed.

Satellite surveillance in 1977 disclosed a possible nuclear testing site in the Kalahari Desert, and the US said in 1979 *it had detected signs of what* might have been a small nuclear explosion in the South Atlantic where a South African naval force was operating.

However, it was not immediately clear why Mr Botha decided to make his disclosure. It coincides with efforts to negotiate independence for Namibia and the withdrawal of Cuban troops from Angola, so the move may be designed to underline South Africa's status as the regional super-power.

It may also be a response to the decision last week by the US House of Representatives to support a bill which calls for almost total US trade sanctions against South Africa. What South Africa intends to do with nuclear weapons, or why disclosure of their possession should make US legislators think again, is unclear. When under pressure, though, Pretoria tends to flex its muscles.

Swedish party loses ground

By **Robert Taylor** in Stockholm

SWEDEN'S ruling Social Democrats are in danger of losing next month's general election because many of their supporters are disillusioned by a scandal over the Olof Palme murder inquiry, according to an opinion poll.

According to the survey, 15 per cent of those who voted for the party three years ago will not support it on September 18, in protest at the Government's handling of the "Ebbe Carlsson affair", a freelance inquiry sanctioned by ministers into the murder of Mr Palme, the Prime Minister, in 1986.

The survey, conducted by the independent SIFO poll organisation, was published yesterday in the country's leading newspaper, Dagens Nyheter.

If these former Social Democratic voters carry out their voting intentions, the party will remain the biggest in Parliament but will find it almost impossible to form a Government with a stable majority.

Swedish politics have been evenly balanced between the Socialist and non-Socialist blocs for nearly 20 years, so even a slight shift against the Social Democrats could cost them the coming election.

The SIFO poll also reveals that 45 per cent of the voters have less confidence in politicians in general as a result of the Ebbe Carlsson affair, while 10 per cent believe the affair is a more important issue than law and order and 9 per cent more important than either taxation or environmental issues.

Belgians agree to cut budget deficit

BELGIAN ministers have agreed on the budget for next year.

It includes plans to cut a huge budget deficit to 7 per cent of Gross National Product, from an estimated 8.5 per cent, the government said yesterday, Reuter reports from Brussels.

Experts were combing through the final details before a full cabinet meeting today to approve the package.

Mr Jean-Luc Dehaene, who masterminded the negotiations that set up a new government in May after the previous one collapsed last October, had expected the budget to be a big test for the five-party coalition.

In the event, negotiations which started last Monday were concluded with relative speed and lack of trouble, analysts said.

Mr Dehaene is now Minister of Communications and Institutional Reforms.

Sudan seeks more aid for 2m flood victims

By **Our Foreign Staff**

THE SUDANESE authorities yesterday appealed for more aid to help up to 2m victims of floods which have devastated Khartoum and other centres.

Mr Omer Nour El Din, Finance Minister and head of the government committee which is co-ordinating the relief effort, said yesterday that 58 people had died and 167,000 homes in the Khartoum areas had been washed away.

Government officials denied that aid was being withheld from the half-million refugees from the civil war in southern Sudan, who live in makeshift camps around the capital.

The refugees are mainly Christian *or animist, and have* been complaining about what they say is the failure of the mainly Moslem Government in Khartoum to provide adequate help.

Dr Nicholas Ward, World Health Organisation representative in Khartoum, warned at the weekend about the imminent danger of cholera, and gastroenteritis. Diarrhoea epidemics have already broken out. Malaria and typhoid epidemics are expected to follow.

King Fahd of Saudi Arabia has donated $8m from his personal wealth to help the relief effort, the Government said yesterday.

Saudi Arabia has agreed to deliver part of its aid directly to flood-hit areas north of Khartoum, where at least 32 villages have been hit.

In Khartoum itself, many parts of the city remained *without electricity or drinking* water. Food shortages were reported, with long queues forming outside the few bakeries which were still functioning.

Special police to tackle Kosovo unrest

By **Judy Dempsey** in Ljubljana

YUGOSLAVIA'S federal authorities have given a 300-strong police unit special powers to crack down on ethnic unrest in Kosovo, a southern province where there is chronic tension between the ethnic Albanian majority and local Serbs.

After a wave of ethnic unrest in 1981, triggered by calls from the Albanian population for Kosovo to be given republic status in federated Yugoslavia, thousands of Serbs and Montenegrins have left the region, one of the least developed in Yugoslavia.

The latest action came against a background of rising nationalist sentiment in Yugoslavia's republics, and of proposals for an increase in the power of Serbia proper over the two autonomous provinces in its territory, Kosovo being one.

Under a plan to amend the federal constitution, it is envisaged that police, *judicial* and several other powers invested in Kosovo and Vojvodina (also a province of Serbia) shall pass to the Serbian Government.

These amendments are supported by Mr Slobodan Milosevic, Serbia's party leader. They are opposed by the two provinces, however, as well as *by the republics of Slovenia* and Croatia, which say Serbia would gain greater weight and authority in the federal structure, something the late President Tito had tried to avoid.

Vietnam poison suspected of killing admiral's son

By **Nancy Dunne**

ONE OF the most widely-told American stories of personal anguish from the Vietnam war ended on Saturday with the death of Mr Elmo Zumwalt III, reportedly as a result of the "Agent Orange" chemical, which his father, an admiral, had sprayed in the Mekong Delta.

The late Mr Zumwalt, commander of a patrol boat, was exposed to the highly toxic dioxin. The Zumwalt family believes this contact caused the lymphoma and Hodgkin's Disease which killed him at 42.

Mr Zumwalt and his father, Elmo Zumwalt Jnr, wrote a book about their plight, "My Father, My Son," which was made into a television film. It revealed that Agent Orange may have touched yet another generation of their family: Mr Zumwalt's son, Elmo Zumwalt IV, suffers from a congenital disability.

Many Vietnam veterans say Agent Orange causes cancer, *birth defects, miscarriages and* other illnesses.

Mr Zumwalt always defended the admiral's decision to use Agent Orange. American sailors on patrol in Vietnam's rivers and waterways were subject to frequent ambush, and the defoliant drove the Viet Cong a thousand yards back from the water's edge.

At the time, Agent Orange was believed to be harmless to human beings. The late Mr Zumwalt at one point swam through water sprayed with the chemical to collect weapons from Viet Cong boats.

"He did what he had to do to reduce casualties," Mr Zumwalt said of his father. "I did *what I felt I had to do.* I volunteered for service in Vietnam because I felt whatever the risks, that was where I belonged."

Admiral Zumwalt, who commanded naval forces in Vietnam from 1968 to 1970, said later he felt no guilt because the use of Agent Orange "saved literally hundreds, maybe thousands, of lives."

Eta expected to step up Basque country attacks

By **Tom Burns** in Madrid

AN INCREASE in agitation is expected in Spain's Basque country over the next fortnight when the main towns in the area stage their annual fiestas.

At the weekend, a spate of bombings constituted the biggest show of force this year by the Basque separatist organisation Eta.

In a carefully co-ordinated action early on Saturday, a string of businesses trading with France were rocked by 11 separate explosions.

Damage was estimated at more than £1m. The timing of the attacks appeared linked to the fiestas that are staged in San Sebastian, Bilbao and other Basque locations in the second half of August, and which have in the past been used by Eta supporters as rallying points for separatist demonstrations.

The bombs wrecked Renault, Peugeot-Talbot and Citroen car showrooms as well as a plant which processes French dairy products.

A railway bridge in La Rioja on the main branch line to Bilbao was also blown up. Yesterday police continued to comb railway lines in the area and increased security for French-linked companies.

French business interests have been a frequent target for Eta bombers, due to the co-operation by the Paris Government with Spanish police in action against cross-border terrorism.

The attacks were the first serious bombings by Eta since a car bomb last December blew up a police station, killing 11 people.

Subsequently, Eta indicated it was willing to negotiate a ceasefire but contacts with government officials were broken off in March when the separatists kidnapped Mr Emiliano Revilla, a financier, in Madrid.

● A UN-sponsored referendum was the only way to resolve the conflict over the former Spanish colony of Western Sahara, King Hassan of Morocco told Algerian journalists, Reuter reports from Rabat.

"Only an international referendum, recognised by the UN, under UN control and approved by the UN can lead to a clear . . . situation," he added.

Three die in riots by Egyptian extremists

EGYPTIAN security authorities have charged 59 people with attempted murder, instigating disturbances and deliberate damage of public property, after Moslem extremist riots over the weekend in which three people were killed and at least 37 injured.

Two youths died in clashes with police on Friday in a Cairo suburb, and a woman died on Saturday. This followed recent unrest at Assiut, in Upper Egypt.

Bundesbank director 'against rate rise'

A BUNDESBANK board member, Mr Günter Storch, has been quoted as saying that he opposes raising the West German central bank's securities repurchase rate if the bank adds liquidity to the money market this week via a new pact, Reuter reports from Bonn.

In an interview with the Frankfurter Neue Presse newspaper, Mr Storch was reported at the weekend as saying that, in his personal opinion, a rise to 4.5 per cent from the current 4.25 per cent was out of the question now.

A Bundesbank spokesman declined to comment on the newspaper article.

The rate has been raised in stages from 3.25 per cent since mid-June to help support the D-Mark on foreign currency markets.

The Bundesbank's seven-member board usually meets on Tuesdays to settle the terms of securities repurchase pacts, which are offered for about a month and used to regulate money market liquidity and short-term interest rates.

Mr Storch was also quoted as saying that the Bundesbank had not yet decided whether it would offer a new allocation next week.

No previous repurchase pact will expire until August 24, when a 4 per cent DM16.2bn (£5.02bn) facility is to mature, so any allocation next week would add extra liquidity to the market and help to dispel fears of an immediate tightening, which have put upward pressure on call money.

Fears of tightening intensified last week when the Bundesbank cut the allocation of its most recent pact to only DM17.6bn, to supersede an expiring DM18.8bn facility.

This followed a rise in the US Federal Reserve Board's discount rate to 6.5 per cent, from 6 per cent on August 9.

However, the allocation was still the fourth-largest this year, which led some dealers to feel the Bundesbank preferred to split the volume and offer liquidity via a second pact this week.

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OVERSEAS NEWS

Pan-European insurance market likely to be a long way off

Progress to date towards true cross-border freedom of trade has to be put into perspective, Nicholas Bunker argues

A LOT OF the activity among European insurers is "panic," says an executive of Royal Insurance, the biggest UK-based property/casualty insurer. "People are afraid of being eaten."

Last week's announcement that merger talks have collapsed between Royal and the French insurer Groupe Victoire was a sign of two things.

First, the prospect of a free European internal market in insurance in 1992 has perhaps concentrated some insurers' minds on the need to grow – by merger or acquisition if need be – to survive in what could be a harsher competitive world. Second, despite the rhetoric, the creation of a pan-European insurance market is still likely to be long-drawn-out affair.

Progress to date towards true cross-border freedom of trade in insurance has to be put into perspective. So far, the European Commission has pushed through the Council of Ministers and the European Parliament only one directive allowing for freedom of insurance services.

Effective from July 1990, it allows cross-border trade in so-called "big risks" – non-life insurance for companies with more than 500 employees or £15m turnover.

Few observers now doubt that in the early 1990s cross-border trade in the industrial insurance risks will be happening. But will much business actually move?

"The framework will be there, but I doubt if there'll be wholesale switching of business," says Mr Edward Hester, of Zurich Insurance's International Division in London.

Prospects for cross-border flows of "big risk" non-life business depend on two other factors: the existence of appropriate distribution systems and of unmet insurance demands in continental Europe.

In terms of distribution, the difficulty is the stunted growth of insurance broking in Europe. The biggest French broker, Faugère et Jutheau, and its biggest West German counterpart, Jauch & Hubener, are tiny compared with the biggest London brokers, or the giant New York-based Marsh and McLennan.

The big US and UK brokers should, in theory, be able to take business away from European markets. Marsh alluded to post-1992 opportunities when it announced this spring that it would run its non-North American business from its London subsidiary, C.T. Bowring.

Yet the prospects of cross-frontier trade will be limited by the ways customers in different countries perceive their insurance needs.

Mr Steve Schleisman, who has moved from New York to Paris to head UNAT, the European property/casualty arm of American International Group, has found insurance buyers in European companies less sophisticated than their North American counterparts.

"The US risk-manager sees himself as an integral part of operations, rather than as a service function," he says.

That is not surprising. In the US, the rapid extension of concepts of legal liability has meant that liability insurance forms the biggest component of corporate insurance bills. More traditional perils – fire, storm, theft, flood – have bulked larger in Europe.

UNAT has found it relatively hard to sell directors' and officers' liability policies to the Swedes or the French. From this point of view, the real opportunities opened up for insurers by 1992 will be that the creation of a single European market in manufacturing industry will create new corporate insurance needs by opening up more complex risk exposures.

Regarding so-called mass risks, the European Commission hopes to adopt a proposal on freedom of services in motor insurance this year. If ratified by the European Parliament within two years, it could be in force by the end-1992 deadline, though it seems likely that smaller countries would be allowed a transitional period.

Life assurance is tougher. The European Commission has a goal of producing a draft directive on freedom of life assurance services by the end of 1988. Privately, officials have indicated that there may have to be several bites at the cherry.

A first directive might allow buyers to obtain life assurance from abroad, on their own initiative. The next one would allow active cross-border marketing of group life schemes. Only later would the Commission draft a directive opening up freedom of services across a full range of products.

A key sticking point – which could take many years to resolve – is the wide variety of tax provisions governing the treatment of life assurance in different member-states.

Mr Andrew O'Leary, of Clerical Medical, the British life office, says: "Some tax harmonisation is essential. There's no point trying to sell life assurance to French people if we can't offer them the right tax advantages."

Yet the mundane quality of personal business such as motor insurance could inhibit utilisation of the freedom of services directive. The Automobile Association, the UK's biggest motor broker, reckons it is in contact with 75 per cent of its policyholders in any year on routine matters.

It seems unlikely that this could be handled across borders – though Mr Alan Horsford, Royal Insurance's chief executive, says it could happen between the Benelux countries.

So the crucial factor reshaping European insurance may not be what happens *across* borders – but the shifts *inside* each member-state. The biggest changes would occur if consumer pressure at home and price competition from abroad caused domestic industries to dismantle their official or unofficial tariff arrangements.

West Germany has the reputation of being one of Europe's most cartelised markets. This may be illusory. According to Mr Bengt Westergren, another UNAT executive, West German "big risk" insurers find ways around the system. "The tariffs are undercut routinely," he says.

None the less, last month the West German Federal Cartel Office recommended ending the present regime, in which rates and policy wordings have to be approved by the Federal Insurance Supervisory Office after consultation with insurers.

What happens if tariffs vanish? One precedent is what occurred in the UK in 1968, when leading insurers decided to abandon the motor tariff, the mechanism for fixing minimum motor insurance prices. The result was a price war which caused severe losses.

From insurers' point of view, then, liberalisation of non-life markets could simply dissipate profitability. "This movement is occurring for consumerist, rather than business reasons, and that is bound to narrow margins," says Mr Tony Wyand, a director of the UK's Commercial Union.

One Parisian insurer says: "West German insurers aren't going to let foreigners take their business. If necessary, they'll let themselves bleed by cutting prices."

The orthodox view is that the approach of a single market has unleashed the present wave of insurance mergers and acquisitions, such as the union of the AXA and AGP groups in France.

1992 THE EUROPEAN MARKET

According to this argument, the big players are striving to form pan-European alliances to shore up profitability and grab distribution systems.

This inspired Wood Mackenzie, the stockbroker, to label Britain's composite insurers "the Rowntrees of the financial sector" because of their alleged attractiveness to predators such as Allianz of West Germany and Generali of Italy.

In reality, the acquisition activity pre-dates the wave of expectation surrounding 1992. Observers point to three interlocking factors which were promoting it, anyway.

The first is the relative underdevelopment of insurance – especially life assurance – in southern Europe.

The Swiss Reinsurance Company estimates that life assurance premium volume per head of population in 1986 ranged from less than $30 in Spain to nearly $1,000 (£590) in Switzerland.

The widespread perception of the growth potential of southern European markets has spurred Allianz and the big Swiss insurers, Zurich Insurance, Winterthur and Swiss Re, to annex Italian companies in particular.

Winterthur recently bought the Rome-based Intercontinentale Assicurazioni and Swiss Re gained control of the Trieste-based Lloyd Adriatico in 1987.

A second factor is the intense fragmentation of two markets in particular: France and Spain each has more than 500 insurance companies, and both are well aware of their vulnerability. There has been scope here for some time for the kind of consolidation which occurred in the UK in the late 1950s and 1960s, when a series of mergers created the big composite insurers which now dominate the non-life market.

Thirdly, there is the little-noticed worldwide trend for sluggish growth in reinsurance volumes as the growing size of primary underwriting companies enables them to retain more of their own risks – a factor which has helped drive Europe's big "professional reinsurers", such as Swiss Re, to seek new markets.

WHO BUYS THE MOST INSURANCE IN EUROPE (Premiums per head of population, 1986, $)

Country	Total business	Non-life	Life
Switzerland	1,746.5	808.5	938.0
West Germany	977.7	563.2	414.5
Norway	874.8	437.4	437.4
UK	807.0	327.7	479.3
Sweden	797.1	350.4	446.7
Netherlands	788.1	428.6	359.5
Finland	769.7	290.2	479.5
Denmark	743.4	435.0	308.4
France	657.9	401.9	256.0
Austria	631.0	447.4	183.6
Ireland	615.8	253.4	362.4
Luxembourg	533.4	405.6	127.8
Belgium	510.3	369.0	141.3
Italy	252.6	206.4	46.2
Spain	137.5	109.4	28.1
Portugal	76.1	68.7	7.4
Greece	46.2	32.1	14.1

Source: Swiss Reinsurance Company

OECD urges reform of Japanese land tax

By Ian Rodger in Tokyo

REFORM of regulations and taxes on land is the most urgent structural change needed in Japan, according to the latest annual report on the country's economy by the Organisation for Economic Co-operation and Development.

"Distorting markets and using land inefficiently has a significant adverse effect on living standards," the OECD report says in a lengthy analysis of the progress of various structural changes in Japan. "Poor housing is perhaps the single most important factor holding back an advance in Japanese living standards."

The OECD report acknowledges that land is perhaps Japan's most scarce resource, but argues that current prices are artificially high.

Even before the recent surge in urban land prices, the value of all land in Japan was 1.5 times higher than that of all the land in the US.

Changes in regulations and taxation could increase the supply of land for housing significantly and thus push down astronomical land prices, the report suggests.

It notes that, because of building restrictions, central Tokyo is less densely populated than Paris or Manhattan.

This is partly because regulations limit the height of buildings in residential areas to 12 metres and limit wooden houses to three storeys. There are also rules restricting the proportion of a site which can be built on.

Meanwhile, the tax system discourages the release of unused or underused land. Capital gains and taxes are higher than inheritance taxes, while property taxes (rates) are charged at 1.4 per cent on assessments that are, in general, less than a fifth of actual values.

"Poor housing is perhaps the single most important factor holding back an advance in Japanese living standards"

Land in an urban area used for farming is exempt from rates and from inheritance taxes if used for farming for at least 20 years following the succession.

The report acknowledges that reform of these measures will be politically difficult, but argues that it is urgent.

"The international implications may also be significant. Lower land prices would reduce the size of the down-payment needed to acquire a house, and this might reduce savings and encourage greater investment in housing.

"By thus affecting domestic saving-investment balances, this change would tend to reduce the current external surplus."

The report's focus on structural problems in housing and other services, such as distribution, telecommunications and transport, is based on the OECD's view that services will have to play a much greater role in Japan's economic growth in the next few years.

It acknowledges that in the past few years far-reaching measures have made many service sectors more open to competition and more responsive to market demands. However, it calls for further progress in a number of areas:

- Distribution: severe regulations limiting the expansion, and operation of large shops should be eased, and the anti-competitive elements in sole-agent distribution arrangements should be reviewed;
- Air transport: better use of airports other than the main Tokyo and Osaka ones would ease congestion and create room for more capacity;
- Road transport: regulations restricting entry and limiting the scope of haulage businesses should be reviewed;
- Financial markets: steady progress has been made, but interest rates on small denomination deposits (less than Y10m), which account for more than half of all deposits with major banks, remain regulated.

Taiwan rejects coalition offer

By Bob King in Taipei

TAIWAN has turned aside an indirect offer from Peking for talks on the formation of a coalition government that would include Taipei's ruling KMT, or Nationalist Party.

Analysts say the government believes the offer – which Mr James Hsiung, a Chinese-American scholar, relayed to a conference run by the Asia and World Institute in Taipei last week – probably amounts to no more than an attempt to discover whether Taipei is moving away from its insistence that the government there represents all China, in favour of a policy of independent nationhood for Taiwan.

Dr Philip Chen, director of the institute, said there was puzzlement in Taiwan as to why, if the offer were serious, Peking had made it through Mr Hsiung, rather than directly.

Dr Chen said the indirect approach reflected, more than anything, Peking's growing unease at the increasing shift in power on Taiwan to local Taiwanese. Programmes aimed to end the decades-long domination of bodies such as Parliament by people from the mainland are now under way.

Mr Lee Teng-hui, himself born in Taiwan, is now both head of state and party chairman, and is less vulnerable to emotional appeals over reunification than his predecessor, Mr Chiang Ching-kuo.

Mr Hsiung said China is offering to renounce the use of force against Taiwan, draw up a new constitution that would eschew the "four cardinal principles" of communism, and share power with the Nationalists, provided Taiwan promised not to declare independence.

He added he was merely relaying what he had heard during a recent visit to Peking and was not a go-between. Taipei is clearly wary of such manoeuvres. Government officials have played down over the past few days the significance of Mr Hsiung's message.

Other observers say that, to gain Taipei's confidence, Peking will have to demonstrate its sincerity through, say, participation on equal terms in international bodies and events

HK prime increased to 9.5%

By Our Hong Kong Correspondent

THE Hong Kong Association of Banks decided at the weekend to raise the local prime lending rate by half a percentage point to 9.5 per cent. The new rates will be effective from today.

The move was made because of the continued rise in the general level of interest rates, in both the local wholesale money market and the Eurodollar market, the Association said.

Local interest rates have now increased by 3.5 points since April, when the prime rate in Hong Kong stood at only 6 per cent.

Analysts said the latest increase would be unlikely to have much effect on the local stock market.

Expectations of a local interest rate increase rose after last week's move by the US Federal Reserve to raise its key discount rate half a point to 6.5 per cent.

Aquino urged to quit

Philippines newspapers yesterday urged President Corazon Aquino to respond to a call by her vice-president to resign, AP reports from Manila.

Vice-President Salvador Laurel had accused Mrs Aquino's Government of incompetence and urged her to call new elections. She refused to comment.

S Korean police harden tactics at rallies

By Maggie Ford in Seoul

POLICE using staves and stones broke up two peaceful student rallies in Seoul yesterday by way of a change of tactics that is likely to heighten criticism of the Government.

The students are planning to march to the border village of Panmunjom today in an attempt to hold a meeting, on reunification of the divided nation, with their counterparts in North Korea. The Government has pledged to stop them.

The violent demonstrations yesterday, when police and students pelted each other with stones and beat each other with sticks, followed a police decision to reduce the use of tear gas before the Olympics here next month.

The acrid gas was used to quell a demonstration at a football stadium last year, resulting in the cancellation of an international match as players collapsed on the field.

Even so, the mobilisation of professional combat police, known for hard-handedness, has frightened students. Both sides are well able to cope with the normal tactics by conscripted riot police using tear gas. Few on either side are ever hurt.

More than 50 people have been injured during the past week as police used the new tactics, along with tear gas, to break up reunification rallies throughout the country. Yesterday they swooped on students as they approached university campuses, arresting more than 50, which brought the total to 1,027 in two days.

Opposition leaders have condemned the violence, but are split over whether the Government should allow a meeting of the students now or after the Olympics. A delegation of parliamentarians is to meet North Korean assemblymen at Panmunjom on Friday – an initiative developed since the students' last abortive attempt to march to the border in June.

China eases 'one child' policy

By Peter Ellingsen in Peking

SLOWLY, and with little or no official fanfare, China is beginning to relax its key means of birth control, the one-child policy.

Instead of strictly limiting all families to a single offspring, the Government is now allowing some rural couples with one girl to have a second child.

Informally dubbed the "one-and-a-half-child policy", the more flexible approach follows gains in population control, and apparent acceptance of the impossibility of eradicating the preference for male children.

The new attitude amounts to an admission that heavy fines and penalties imposed for breaching the one-child policy have not always worked.

A farmer facing a fine summed up the Government's dilemma when he claimed girls could not do hard farm work, and left the family home on marrying.

"Money is dead treasure: a son is living treasure," he said.

Typical of the new thinking is the coastal Shandong Province, near Peking, where the local family planning committee surveyed 1,138 couples and found a majority with one girl wanted another baby.

Surveys in Wendeng, Jiaoxian and Wudi counties showed that the first child in families with two children often was female.

So, after what Chinese officials describe as "frank discussions", it was decided to let mothers over 30 with one girl have another baby.

"We believe that even though the birth rate might go up slightly as a result of the new policy, the province's overall population plan will not be affected," a spokesman for the committee explained.

The more liberal approach comes as the Government is claiming success for its birth control measures.

In the southwest province of Sichuan, the most populous region of China, the birth rate is now said to be lower than the national average.

According to the province's vice-governor, Han Bangyan, last year saw 140,000 fewer children born than the peak year of 1986.

While claiming that Sichuan, with a population of 104m, had turned the corner on birth control, the vice-governor emphasised the need to monitor family planning measures.

With 1.3m couples in the child-bearing age group, efforts were still necessary to ensure Sichuan did not exceed its population goal of 120m by the end of the century.

Colombo police launch drive to balk terrorists

By Mervyn de Silva in Colombo

POLICE launched a security operation in Colombo yesterday as state radio and television broadcast hourly warnings of possible bomb attacks today – India's independence day.

The authorities warned that the Tamil Tigers, the main separatist group fighting a 60,000-strong Indian peace-keeping force in the north of the island, had despatched a specially trained, 25-member terrorist squad to Colombo.

Police began house-to-house searches in Tamil suburbs, while army units patrolled the Indian business sector and all Indian High Commission buildings. Airline offices and banks were heavily guarded.

SHIPPING REPORT

Tanker rates steady in Gulf

By Kevin Brown, Transport Correspondent

RATES remained broadly steady in the Gulf last week, but the volume of inquiry for ships was relatively low as the industry awaited the outcome of the ceasefire agreement between Iran and Iraq.

Brokers said many traders remained sceptical about the agreement, and were unlikely to re-enter the market in strength until it was clear that stability had been restored.

The reluctance to fix cargoes was exacerbated by the uncertainty caused by fluctuations in the price of crude oil, and the impact of higher interests in the UK and US.

Hopes for an improvement in the market in the short term rest on the continued strength of world demand for oil, largely because of the continuing buoyancy of the US economy.

However, brokers pointed out that around 1.25m barrels per day of the 18.5m-19m b/d being produced by the Organisation of Petroleum Exporting Countries is believed to be going into storage.

E.A. Gibson, the London brokers, said this could overhang the market next year, and warned owners to temper optimism about long-term rate rises with a strong dose of realism.

In the Gulf, very large crude carriers were being fixed at around Worldscale 40 to the East and slightly less to the West. One ultra large crude carrier was reported to have been fixed at Worldscale 37 to the West.

Demand for product tankers was affected by the continued absence of Japanese charterers. Brokers said the Japanese companies were still absorbing a large number of 50,000-ton cargoes arranged last month for August loading.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	July '88	June '88	May '88	July '87
USA 000's	6,625.0	6,455.0	6,783.0	7,251.0
%	5.4	5.3	5.6	6.0
	June '88	**May '88**	**Apr.'88**	**June '87**
UK 000's	2,340.8	2,426.9	2536.0	2905.3
%	8.5	8.8	9.2	11.3
Japan 000's	1,450.0	1,540.0	1,570.0	1,780.0
%	2.4	2.5	2.6	3.0
W. Germany 000's	2,131.4	2,149.3	2,261.7	2,458.7
%	7.8	7.8	8.2	7.6
Netherlands 000's	673.9	647.4	663.9	657.9
%	11.7	11.2	11.53	13.8
Belgium 000's	424.5	429.6	443.2	466.1
%	10.3	10.42	10.7	11.4
Italy 000's	3,762.0	3,638.0	3,624.0	3,213.0
%	16.2	15.7	15.6	10.5
	May '88	**Apr.'88**	**Mar.'88**	**May '87**
France 000's	2,432.2	2,478.1	2,547.8	2,522.4
%	10.4	10.6	10.9	10.8

Source: (except US, UK, Japan) Eurostat

Smaller building society tops performance table

By David Barchard

TOWN AND COUNTRY, the smallest of the top 16 building societies, emerges as the industry's star performer in the first detailed analysis of building societies, published today by Phillips & Drew, the London finance house.

The report shows there is no direct correlation between the size of the main building societies and their financial strength. Some societies which were first to declare themselves against conversion into companies emerge as the weakest financial performers.

Town and Country is ahead of all the other societies surveyed on seven out of 12 performance criteria. The criteria were intended to show the financial strength of building societies on the basis of profitability, capital strength, market share, revenue cost, and growth. The purpose of the report is to itemise the strengths of building societies at a time when some may be tending to drop mutual savers.

Two other societies close to the top of the table were Abbey National, and Cheltenham and Gloucester. Abbey National announced last April that it plans to shed mutual status if its members approve, while Cheltenham and Gloucester is considering its strategy.

Mr John Wrigglesworth, who prepared the report for Phillips & Drew said yesterday: "The key ratios of profitability, capital adequacy and management expense show Town and Country consistently doing better than most other societies. Its main weakness is its relatively small share of the market."

His study will provide some encouragement for Abbey National's proposed flotation as it shows the society is in the top five for nine out of the 12 categories and has a record of growing profitability and reduced management expenses in the past few years.

Halifax, the largest building society, comes only sixth. It has a strong lead on market share but its indicators of capital strength are below average for the top 16.

Gateway, a society which vanished when it merged with Woolwich this summer, comes bottom of the table, doing poorly on all the criteria chosen by Mr Wrigglesworth.

Nationwide Anglia, the third largest society, in one of the surprises of the study, comes out only slightly above Gateway. Its main areas of weakness seem to be profitability, capital strength, and management expenses.

Britannia also comes out poorly, with single-figure ratings in only three of the performance tables.

Both societies say they favour retaining mutual status. The reason for Nationwide Anglia's poor showing, on the basis of the figures in the report, may be rising management expenses which account for 65 per cent of its income compared with 41 per cent for Abbey National, and an average of 48 per cent for the top 16 societies.

This may reflect the ambitious diversification into new financial services by Nationwide Anglia while the society is still affected by the merger between the old Nationwide and Anglia societies.

Economics that threaten a Hotol launch

David Fishlock on a project that cannot survive on technological promise alone

HOTOL, now owned by Rolls-Royce, was first publicised at the Farnborough Air Show of 1984 and is arguably the most glamorous piece of advanced technology to fall foul of the Government's purge of its less productive research and development investments.

Unlike the nuclear fast reactor programme, on which the taxpayer has been spending more than £100m a year, Hotol — the horizontal take-off and landing space launcher — has cost the Government very little, mostly on studies into whether the concept will work.

For the past year, since completion of phase one of the Hotol study, British Aerospace and Rolls-Royce have kept the project alive with their own funds, hoping for government support for phase two.

Phase two is intended to test some of Hotol's key features in rigs, at a cost of perhaps another £8m over three years, in preparation for phase three.

Phase three would take the project into the demonstrator stage, building and breaking real engines. Rolls-Royce cannot yet say what this phase may cost.

The case against Hotol is that as a re-usable space launcher, very few will be needed — fewer than 20, says Sir Francis Tombs, Rolls-Royce chairman. Britain, in spite of claiming a world lead, is not the only nation developing a re-usable space launcher and must at best expect to share any market with the US, Japan and West Germany.

In short, Britain cannot expect to get a commercial return from an outlay which industry estimates suggest will be in the order of £5bn or £6bn. Why spend another £6m on phase two when, under the Government's own R and D rules, there is no likelihood of it funding phase three?

Enthusiasts for space travel have risen in support of Hotol's inventor, Mr Alan Bond, to contest this conclusion, which was endorsed by the Government last month. Mr Bond has publicly threatened to take his ideas overseas and claimed he is hampered only by the fact that the Government has "classified" his brainchild as having military potential.

In fact, as Rolls-Royce has now disclosed, Mr Bond has already sold his invention to the company. And Rolls-Royce can see no way of getting a commercial return itself on developing a Hotol engine, designated RB.545.

A Rolls-Royce executive says everyone should forget talk of passenger travel at hypersonic speeds: Hotol is not a potential passenger-carrying vehicle, it is a space launcher; a way of putting payloads into orbit more cheaply than rockets and the US Space Shuttle.

As an airliner, Hotol would be far less efficient than Concorde, which itself can carry only 7 per cent of its take-off weight as payload. Hotol's objective is only 3 to 3.5 per cent — and this is regarded as optimistic. On the other hand, a typical single-stage launcher has a payload of 1 per cent.

What Hotol offers is a way of reducing the heavy burden of liquid oxygen which a conventional space launcher must carry.

Mr Bond envisaged an engine fuelled by hydrogen which would behave like a conventional jet engine for the first few minutes of flight, using air sucked in from the atmosphere to burn the fuel. The engine would then pass through a transition stage when stored oxygen first boosted, and then replaced, the air as the launch vehicle left the atmosphere.

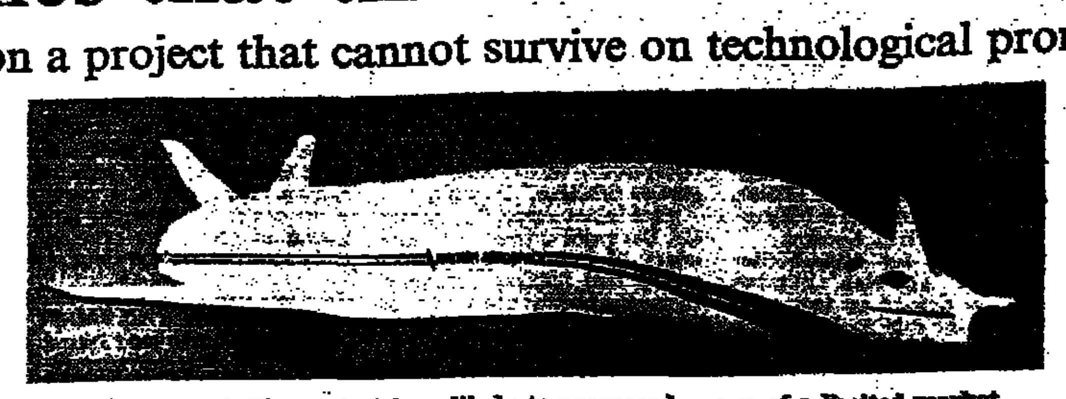
In the 1960s, Mr Bond worked for Rolls-Royce as a rocket engineer, winning a reputation as a man of vision. He gained the idea that nuclear fusion reactions might become the basis of the space engine he sought and he joined the fusion research centre of the UK Atomic Energy Authority at Culham, near Oxford.

Culham's management says the first it knew of his invention was when the Ministry of Defence classified it. They then learned, to their astonishment, that Mr Bond had done the calculations at home in his own time, leading to his own patent application.

Rolls-Royce executives say they were far from certain Bond's concept would work. The air sucked in by the engines would become very hot at high speeds through the atmosphere, creating difficulties for efficient combustion. Clever heat exchangers had to be invented to cool and dry the air.

Bond was seconded to Rolls-Royce by Culham for two days a week during phase one, which is why he has been seen on television wearing a Rolls-Royce insignia on his white coat. He is now back full-time at Culham.

Mr Stuart Miller, Rolls-Royce's director for corporate engineering, admires Bond's achievements and believes the Hotol concept can be made to work. But he has to worry about whether there would there be enough customers for such an engine?



A model of Hotol: The project is unlikely to progress because of a limited market

A development phase costing £5bn to £6bn cannot hope to show a return for the company when the world market for such a re-usable engine is fewer than 20. In addition, there is little scope for spares, normally a large part of the aero-engine business.

If Mr Bond's belief holds true — that it would be a cheaper way of making space launches — the biggest benefactors will be satellite operators, such as telecommunications and broadcasting companies, and the MoD, for whom it could open fresh options in defence strategy.

Rolls-Royce executives stress they would love to have a contract to develop the Hotol hydrogen-burning engine. It would stretch the technology and would be a technical challenge — though less of a challenge, they say, than for British Aerospace which would need to trim every gram of surplus weight in order to minimise the drawback of such a bad payload-to-weight ratio.

However, Hotol would give Rolls-Royce valuable experience of the high-speed regime for turbo-machinery beyond Concorde, for aircraft travelling at between Mach 2 and Mach 8.

As a private venture funded by the company, however, it compares poorly with developing a new civil airliner engine. Industry wisdom suggests that it would cost about £1bn to develop a big new engine from scratch. In practice, most new aero-engines are derivative and their R and D costs are but a fraction of this.

Rate rises highlight credit card divisions

By David Barchard

RECENT increases in interest rates by the main credit card organisations highlight sharp divisions emerging in the UK plastic cards market.

Newer card issuers are trying to undercut established brands such as Barclaycard and Access.

Barclaycard announced at the weekend that it had increased its annual interest rate to 26.8 per cent and last week Lloyds and TSB Trustcard, the second largest Visa card, put their rates up to 25.3 per cent APR.

"These rates may look high but they are really not excessive when you consider firstly that about 45 per cent of our customers pay no interest because they settle their accounts in full every month, and most of the remainder will pay off their balance in two or three months, incurring an effective rate of well below 20 per cent. By the standards of the money markets, the credit we offer is in fact very reasonably priced," said the general manager of one credit card operation who asked not to be named.

Credit card issuers are especially sensitive at present to charges that they make excessive profits because an inquiry into the credit card industry is being carried out by the Monopolies and Mergers Commission, which is due to report next May.

The commission's report is expected to lay the ground rules for the future development of the credit card industry at a time when it is going through intense upheaval.

The two main systems, Visa and Mastercard, are both allowing new entrants to join, thereby placing hard strategic choices on existing card issuers.

Charles Hodgson writes: Mr John Smith, the Shadow Chancellor, last night called for tighter ceilings on interest rates charged by credit card companies and "fringe" lenders to protect consumers.

He said there was an "excessively wide margin" between interest rates charged by banks and those charged by credit card companies. These companies already enjoyed "very healthy profit margins" and he saw no justification for the Barclaycard increase.

Last week Mr Smith called for tougher controls on "easy credit" which was leading many families into disaster.

Ministry 'failing' to protect land

By Bridget Bloom, Agriculture Correspondent

THE MINISTRY of Agriculture is no longer prepared to fight to protect good farmland in the countryside, the farming industry and the economy, according to one of Britain's main conservation agencies.

The Council for the Protection of Rural England argues that, following changes to rural planning procedures in May last year, the Ministry of Agriculture is taking a more permissive attitude to development for non-farming purposes such as housing or roads.

The CPRE maintains that in 1987 the ministry objected to less than one in 20 applications to develop farmland — the lowest proportion ever. The CPRE claims the ministry is failing to fulfil the obligations it still has under the planning process.

The agriculture ministry has long been seen as the guardian of agricultural land, since applications for permission to develop land which has not been included in county structure plans have traditionally been submitted to it for approval or rejection.

The CPRE maintains that this obligation remains, in spite of a weakening in the ministry's role following the introduction of the Department of Environment circular 16/87 in May 1987, which was part of the so-called Alure package detailing policies on alternative land uses.

The CPRE's criticism comes less than a month after the Countryside Commission, the Government quango whose role is to advise Government on the countryside, called for a more coherent strategy on rural development.

Concrete Objections — The Ministry of Agriculture's Response to Applications for Development of Agricultural Land. CPRE, 4 Hobart Place, London, SW1. £5.

Planning for Change: Development in a Green Countryside. Countryside Commission, Cheltenham, Gloucestershire.

Self-employed group criticises tax policy

By Charles Batchelor

GOVERNMENT efforts to encourage small business are being hampered by an Inland Revenue crackdown on the self-employed, according to the National Federation of Self Employed and Small Businesses.

While the Government is keen to encourage more flexible work practices, the Revenue and the DHSS are making life more difficult by arbitrarily re-classifying many traders as employees, claims the federation, which has almost 50,000 members.

For the past year, the federation has been campaigning for the Revenue to change its tactics but has been alarmed by the much tougher attitude the Revenue has recently adopted in the west country to traders with more than one business.

They are being required to register as employees for all but their main business.

The federation hopes to promote legislation requiring the burden of proof to be shifted to the Revenue to show someone is not genuinely self-employed.

Mr Brian Prime, federation chairman, said: "It is futile to have millions of pounds being advanced by Government to stimulate self-employment when you have the DHSS and the Revenue pursuing a policy that rules out the jobbing self-employed people who can turn their hand to many skills."

People such as market researchers or consultants who might work for several different people in a week could be forced to become "employees" of the clients for whom they work in spite of the fact that they do not deal exclusively with one company, the federation warned. This would mean that in theory they would have to get a P45 form completed after every job.

One federation member, who is an estate agent and financial adviser, does occasional bookkeeping for his father's company and has been told by the Revenue he must be employed by his father rather than invoice him and receive a fee.

Many self-employed traders with seasonal summer businesses do different jobs in the winter.

It seems that they will have to do such work as "employees" even if they have VAT registration numbers and are working quite independently using their own tools and vehicles, the federation said.

People who moved between employment and self-employment in the same year would spend much of their employed time on emergency rates of tax since their tax liability while self employed could not be calculated until the year end, the federation said.

There are 2.7m self-employed people in the UK, just over 10 per cent of the workforce.

Their numbers have increased over the past decade with strong growth in the service sector.

Barclays creates department

By Peter Montagnon, World Trade Editor

BARCLAYS BANK has reorganised its medium-term export credit and project finance business into a single department which will be part of its corporate division.

The department, for which Mr Mike Rowlinson, a corporate division director, will have overall responsibility, will combine the provision of services to exporters requiring medium-term finance with the supply of project advisory services and medium-term limited recourse financing.

This will include the business of assisting contractors with finance for project development both in the UK as well as abroad.

Appointments, Page 8

Role for Sun Life chief

By David Lascelles

MR PETER GRANT, chairman of Sun Life, the life assurance company, and former deputy chairman of Lazard Brothers, merchant bank, has been appointed head of the London operations of PaineWebber, the US investment bank.

Mr Grant, 58, said yesterday that he saw his role as developing the European presence of PaineWebber, which has not yet achieved the same standing as other US houses such as Morgan Stanley and Goldman Sachs. He said PaineWebber was particularly strong in the management buy-out business, which needed good market connections. It was also a substantial fund manager.

Mr Grant has spent 35 years in corporate finance and merchant banking. Much of his time recently has been taken up at Sun Life trying to seek alliances with foreign insurance companies in Europe and the US. The plan is being fiercely opposed by Trans-Atlantic Holdings, the 26 per cent shareholder which is controlled by Liberty Life of South Africa.

Mr Grant said he expected to divide his time equally between PaineWebber and Sun Life.

Airports authority rejects complaint of high costs

By Kevin Brown, Transport Correspondent

BAA yesterday rejected claims by airlines that its charges were too high and claimed that it seeks only a "fair and modest" return on investment.

BAA refused to comment in detail on a complaint about its pricing policy prepared by the Board of Airline Representatives, which speaks for about 90 airlines.

The complaint concentrates on increased charges for check-in desks and office accommodation at London's Heathrow and Gatwick airports, which BAA operates.

BAA said it was subject to "very stringent" regulatory control by the Government and the Civil Aviation Authority, designed to ensure that charges were closely related to costs.

The Government restricts increases in landing charges and associated passenger fees to one percentage point less than the annual increase in the Retail Prices Index.

The CAA is responsible for regulating all other charges, such as for coach parking, which the BAA is trying to increase.

The BAA said: "The charges we make for check-in desks reflect the substantial investment, running into tens of millions of pounds, that we have made in automated optical recognition baggage handling equipment installed at the request of the airlines."

Faults in new locomotives lead BR to delay delivery

By Our Transport Correspondent

BRITISH RAIL has postponed delivery of part of a £50m fleet of electric locomotives being built by British Rail Engineering (Brel) and GEC because of technical problems identified during testing.

Eight of the Class 90 locomotives have been delivered for use on the west coast main line between London to Glasgow. However, BR has refused to accept delivery of the ninth until modifications have been carried out.

British Rail said: "We are not taking any more beyond the eight, but production is continuing and we expect deliveries to resume shortly, when modifications can be done to those delivered and those awaiting delivery."

The locomotives are being built by Brel, with traction equipment supplied by GEC. The source of the problems is unclear, but GEC said its electrical equipment was not to blame.

Mr Brian McCann, managing director of GEC Transportation Projects, said: "We don't have any problems with our part of the contract."

No comment was available from Brel.

The delay is unlikely to have much effect on west coast express services, since the 110mph Class 90 locomotives have the same top speed as the existing Class 87 stock on the line.

Small National Savings inflow

NATIONAL SAVINGS saw a small net inflow of £12.4m in July. This reverses the large £60m outflow registered in June but continues the declining trend in National Savings contributions seen for much of this year.

The main net contributions to funding came from income bonds (£94m) and investment accounts (£63m). But there was a £56.3m net outflow of fixed interest certificates, including accrued interest.

The total net contribution to funding so far this year amounts to £526m, down from £844.7m in the same period last year.

Vigorous retail sales expected to continue

By Ralph Atkins, Economics Staff

VIGOROUS GROWTH in British retail sales is set to continue through August with no sign of a slowdown, according to a survey released today.

The Confederation of British Industry/Financial Times distributive trades survey shows that retailers are more optimistic about sales volumes this month than at any time since December 1986.

It also shows that a striking 79 per cent of motor traders questioned expect sales in August to be higher than the same month a year before – underlining the recent buoyancy of car sales. Just 3 per cent expect falls.

The survey indicates that the strength of consumer spending in the UK economy is not abating.

If retail sales figures for August match retailers' expectations, it would suggest that recent rises in mortgage interest rates have had little effect so far.

The results are the first of a series of statistics published this week for the British economy.

They will be scanned by analysts for signs of a rise in inflation caused by exceptionally fast economic growth.

- Official figures for retail sales in July are published today and are expected to show further signs of strong growth.
- Bank and building society lending figures, published on Thursday, are likely to reveal big increases, suggesting fast growth in the money supply.
- The retail price index, released on Friday, is expected to show the annual rate of inflation rising towards 5 per cent.
- Figures for underlying average earnings growth are due on Thursday. These could point to increasing upward pressure on prices.

In the CBI/FT survey, 68 per cent of retailers said sales volumes were higher in July than the same month a year before, while 10 per cent reported falls.

For August, 65 per cent expect an increase compared with August 1987. Just 4 per cent anticipate a fall.

Shops selling household textiles, furniture and carpets were the most optimistic about sales this month. Food retailers also expect to do well.

The recent fast pace of retail sales has been fuelled by strong earnings growth and buoyant demand for credit.

Tax cuts announced in the Budget earlier this year have also encouraged spending.

Some City of London analysts believe that the strength of sales is leading to bottlenecks in industry as output capacity proves insufficient.

This could put further upward pressure on prices and worsen Britain's trade deficit by sucking in more imported goods.

More open gas pricing policy may be imposed

By Max Wilkinson, Resources Editor

BRITISH GAS is likely to be forced to be accept a change in its licence to make it more open with its pricing and accounting policies as a result of a Monopolies Commission report now almost completed.

The report, which will be sent to Lord Young, the trade and industry secretary, next week, is a response to complaints by Sheffield Forgemasters that British Gas was overcharging some of its industrial customers.

Lord Young and Mr Cecil Parkinson, the Energy Secretary, are said to have agreed informally that the corporation should be subject to more discipline from competition.

The commission report is expected to suggest three main ways in which this could be achieved:

- A rule which would prevent British Gas from buying more than 85 to 90 per cent of gas produced from any new North Sea development. The remainder would be sold direct to industrial companies or brokers.
- A requirement that the company should publish a range of indicative prices charged to industrial companies. This would help competitors get a foothold in the market.
- A better breakdown of the company's profits to reveal how much it is earning in the unregulated industrial sector and how much from captive domestic customers.

Mr James McKinnon, director general of the Office of Gas Supply pressed the case for more competition in industrial gas markets earlier this year.

He has also told MPs that he believed it was essential that British Gas should provide profit figures from different market sectors if domestic prices were to be adequately regulated.

These views have doubtless been put strongly in Mr McKinnon's evidence to the Monopolies Commission, and the expectation in Whitehall is that the report will broadly endorse them.

It is also expected that the report will favour an increase in Mr Mckinnon's powers to make him an umpire of fair play in the industrial market.

Under the Gas Act drafted in the last Parliament when Mr Peter Walker was energy secretary, the regulator is largely restricted to an oversight of the domestic market.

In this sector annual tariff increases are restricted to 2 percentage points less than the inflation rate, plus an allowance for the increase in North Sea Gas costs.

However, Ofgas has already told British Gas that it cannot do its job properly unless it has complete access to the company's financial and operating figures.

It has said that when the formula comes to be revised after five years, the public will want to know whether profits in the controlled monopoly market were reasonable.

The company has now provided Ofgas with data from which an analysis of profits and return on investments is expected to be made by the end of the year.

In Whitehall, there is some debate whether the changes which the commission is expected to suggest would require new legislation. It is generally expected, however, that, an amendment to the 44-page licence granted by the Energy Secretary would be enough.

This could be done by ministerial dictat

However, if the Government failed to act it would still be possible for Mr McKinnon to make a separate proposal for a change in the licence, which the commission could then implement independently of ministers.

Mail may face disruption

By Michael Smith, Labour Staff

POSTAL SERVICES in Britain may be threatened with severe disruption after a decisive vote by Post Office staff to give union leaders the power to organise industrial action.

The outcome of a secret ballot is expected to be announced today, but Mr Alan Tuffin, general secretary of the Union of Communications Workers, said yesterday that returns indicated a two-to-one majority in favour of giving the union a mandate for action.

The dispute is over the Post Office's imposition of local pay supplements for new employees to ease acute recruitment difficulties in some areas, all in the south-east of England. Mr Tuffin says the payments breach a deal signed last year to settle a row over the union's claim for a shorter working week, a charge denied by the Post Office.

In a separate development yesterday the UCW and three other unions said they were organising another ballot on industrial action, this time over the Post Office's plans to convert 250 branches into sub-post offices. The ballot is expected to take four weeks.

The disputes are the latest in a series of highly public rows between the UCW and the Post Office. Last month the Post Office won a High Court injunction against the UCW to stop the union from instructing members to boycott team briefings – workplace discussion groups – aimed at improving industrial relations.

Union claims that industrial relations have sunk to a new low are denied by the Post Office, which says the number of days lost through unofficial stoppages in the past three months is no greater proportionally than the past two years.

Mr Tuffin has written to the Post Office requesting urgent talks on the payments for new recruits.

TUC intervenes in union row

By Philip Bassett, Labour Editor

THE TRADES Union Congress has suggested a compromise to try to defuse an inter-union dispute over a single-union agreement.

TUC officials have put proposals to Sogat, the general print union, and the EETPU electricians union, in an effort to resolve the row over a deal signed by the EETPU with a Finnish-owned company for a new paper mill in the west of Scotland.

The electricians signed a single-union deal with Caledonian Paper in January. The company is a subsidiary of Kymmene, the Finnish forestry products group.

Sogat leaders reported the deal to the TUC under its inter-union disputes procedures.

The deal will cover 300 manual workers to be employed at Caledonian's £215m high-technology paper mill at Irvine.

The EETPU's deal followed a "beauty contest" between four unions – Sogat, the electricians, and the TGWU transport and AEU engineering unions, although full negotiations took place with only the first two.

EETPU leaders said that their single-union deal with Shotton Paper in North Wales demonstrated their presence in the papermaking industry.

However, Sogat, which represents employees at Kymmene's two other UK mills, Star Paper and Wolvercote, said the EETPU had no place in the industry.

Pit union accepts 6-day deal

By Charles Leadbeater, Labour Correspondent

NATIONAL Union of Mineworkers' leaders have tacitly accepted the introduction of six-day production at a colliery in south-west Wales, despite their long-standing opposition to flexible working.

The Cynheidre colliery, which voted heavily to help re-elect Mr Arthur Scargill as the union's president earlier this year, is thought to be the first NUM branch to allow weekend coal production.

Its decision could have wide repercussions for the industry. British Coal has been pressing the mining unions to accept six-day coal production at certain pits to ensure that costly machinery is fully utilised.

The state-owned corporation is thought to be close to an agreement with the Union of Democratic Mineworkers over flexible working.

Local union officials at Cynheidre supported the branch's decision because additional weekend working was considered essential to overcome geological problems. The south Wales NUM informed the NUM national leadership.

Mr Peter Heathfield, the NUM's national secretary, told the south Wales NUM that solutions to geological problems were best left to local negotiations, and made no effort to reassert the union's national policy of opposition to flexible working.

Many of the 600 Cynheidre miners are expected to transfer late next year to a drift mine being developed nearby. NUM officials believe British Coal could press the branch to agree to work the new mine on a six-day rota as a condition for keeping Cynheidre open until the new mine starts production.

Fraud claimed over trade figures

By Charles Hodgson

THE LABOUR Party yesterday accused the Government of fraud in claiming that Britain's trade deficit was a "problem of success."

Mr Tony Blair, Labour's trade spokesman, said an analysis of trade figures showed that foreign imports of cars and other consumer goods were the biggest cause of the most recent deterioration in the trading position and not imports of capital goods, as government ministers have claimed.

The current account deficit widened to £5.6bn in the first half of the year following a £1bn deficit in June. Internal Treasury forecasts estimate a full-year deficit of about £10bn.

However, the Government has insisted that the trade gap reflects the strength of the economy and that as the economy slows to a more sustainable rate, the gap will gradually close.

Tony Blair: figures should serve as a warning

Labour has maintained its attack on the Government's handling of the economy during parliament's summer recess, arguing that Britain is locked into a vicious circle of worsening trade deficits, rising interest rates and inflation, and an over-valued pound.

The main conclusions of Labour's analysis, based on the latest Overseas Trade Statistics and the Monthly Review of External Trade, are that:

- Since the beginning of 1987 there has been an increase of more than £3bn in the current account deficit on visible trade;
- The deficit on manufacturing has increased by £3.2bn over the same period;
- Capital goods imports have increased roughly in line with other categories over the past 18 months but in the latest quarter the increase is less than that for cars and other consumer goods.

According to Labour's analysis, imports of cars increased by 13.5 per cent in the second quarter of the year, while other consumer goods increased by 9 per cent. This compares with increases of 10.6 per cent and 4.2 per cent for intermediate and capital goods respectively.

Mr Blair said that the figures should serve as a "warning to all but the incurably complacent."

"Most of the deficit has nothing to do with capital goods, but is spread right across our manufacturing sector," he said. "Cars and other consumer goods account for a larger part of the deterioration."

Mr Blair added that it was shameful that the balance of trade on capital goods had continued to deteriorate when Britain was a net exporter of these goods as recently as 1983 and when imports were coming from Britain's main competitors in the European Community, the US and Japan.

The analysis also shows that the invisible balance on services is stagnant.

Overseas travel had increased sharply and now contributed heavily to the deficit, Mr Blair said.

Short-term funds 'are financing deficit'

By Ralph Atkins

BRITAIN'S current account deficit is being financed by short-term and speculative investment inflows, says a leading securities house in a paper released today.

Shearson Lehman Hutton disputes the Government's claim that the growing deficit is being covered by soundly-based, long-term investment flowing into Britain.

Mr Tim Congdon, the paper's author, analyses flows of funds in and out of Britain in the last 12 months.

He says that by far the most important inflows from abroad have been portfolio investment (in company shares, for instance) and inflows via the banking system.

"Most of the new foreign claims on the UK are highly liquid and can properly be regarded as 'hot' money," he says. "It is very unlikely that these types of inflow will remain at recent levels indefinitely."

Mr Congdon says that the current pattern of investment flows is supporting the pound and financing imports of goods and services and the outflow of investment from the UK.

However, he warns that if hot money inflows were to become hot money outflows, the pound would come under downward pressure on the foreign exchanges.

He says: "It is not going too far to say that the UK's balance of payments and the sterling exchange rate, have become dependent on continued substantial inflows of hot money."

The paper estimates the amount of financing needed to cover the current account deficit and capital outflows in the 12 months to June was between £22bn and £23bn.

During this period, the UK is estimated to have had a current account deficit of about £8bn.

To balance, this has to be matched by similar-sized inflows of capital from overseas investors. Mr Congdon says official data is unsatisfactory but makes estimates for the three main types of investment.

Portfolio investment in Government securities is estimated to have been about £2.5bn to £3bn.

Inflow via banks and building societies is estimated to have been about £11bn and portfolio investment in private sector instruments, such as equities, about £9.5bn to £11bn.

Mr Congdon says the pattern of portfolio investment inflows, excluding government securities, in the year to June was in "stark contrast" to the early 1980s. Then, the UK made large net portfolio investments in foreign stockmarkets.

"It remains to be seen whether the UK will revert to its traditional status as a substantial portfolio investor abroad but there is no doubt that the inflows of the last year are unprecedented."

CBI/FT DISTRIBUTIVE TRADES SURVEY

Retail sales growth beats expectations

By Ralph Atkins, Economics Staff

RETAIL sales growth in July beat expectations and retailers are more optimistic about sales in August than for any month since December 1986.

The Confederation of British Industry/Financial Times distributive trades survey, published today, shows 68 per cent of retailers said sales volumes in July were higher than in July 1987. Only 10 per cent reported falls.

Of the 288 retailers questioned, 65 per cent said they expected sales in August to be higher than the same month a year earlier. Just 4 per cent anticipated falls.

This meant the balance of those expecting rises, minus those expecting falls was plus 61 per cent – higher than in any month since December 1986. It compared with a balance of plus 57 per cent expecting increases in July.

The survey suggests there has been no reduction in the exceptional strength of retail sales growth since the beginning of last year. However, the CBI said there was no sign of a significant acceleration in the rate of increase.

Mr John Caff, economic director at the CBI, said: "The greater purchasing power of consumers continues to be the main factor behind the recent improvement in business, as real personal disposable income is boosted by the Budget tax changes."

Strength in retail sales has worried some City analysts who fear the exceptional growth is increasing inflationary pressures and sucking in imports.

Department of Trade and Industry figures for retail sales volumes in July, to be published later today, are expected to show further strong increases into the second half of the year.

The CBI/FT survey shows the balance of retailers reporting increased sales in July, compared with the same month a year before, was plus 58 per cent. This was unchanged from June but otherwise was the highest since January.

Sales for July were thought by retailers to be not as good as in June but an improvement is expected in August. For both July and August the sectors most positive about sales growth were grocers and retailers of household textiles, furniture and carpets.

A balance of plus 39 per cent of retailers reported an increase in orders placed with suppliers compared with July 1987. This was greater than expected and compared with plus 31 per cent in June.

In motor trading, a balance of plus 26 per cent reported sales higher in July than in the same month a year earlier.

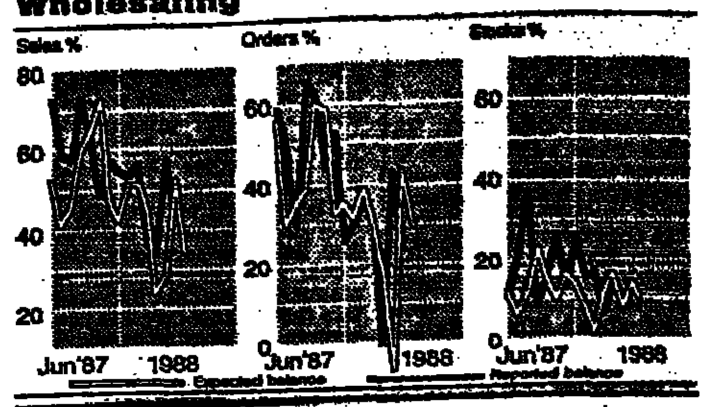
However, the 65 motor traders questioned were extremely optimistic about sales in August. A balance of plus 78 per cent expect increases compared with last August – the highest since the survey started in July 1983.

Among wholesalers, July's growth in sales volumes was slower than expected but remained strong. A balance of plus 42 per cent reported increases compared with the same month a year before, against a balance of plus 57 per cent reporting increases in June.

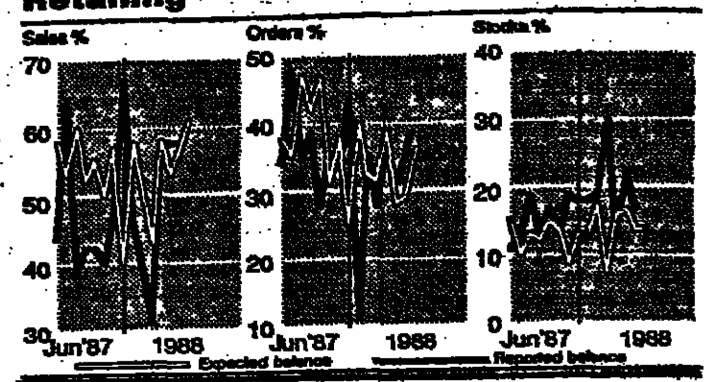
A balance of plus 34 per cent of the 164 wholesalers questioned anticipated sales increases in August. This suggests there may be a further slowing in sales growth.

Wholesalers of industrial materials and builders merchants reported the best sales increases in July.

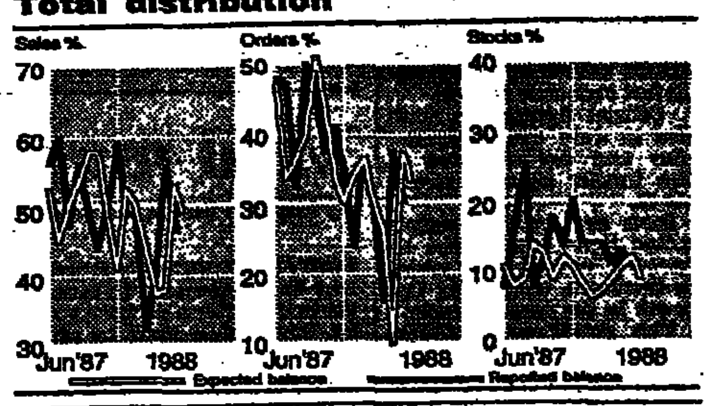
Wholesaling



Retailing



Total distribution



Value of business travel market 'to rise rapidly'

By David Churchill, Leisure Industries Correspondent

THE BUSINESS travel sector – airlines, hotels, and car and rail travel – is likely to grow rapidly in the 1990s, according to a report published today by the Economist Intelligence Unit.

It suggests the value of the market will grow from $300bn (£176bn) at present to more than $400bn by 1995.

The volume of business travel – trips involving at least a night away from home – is predicted to grow from the present 600m trips a year to 800m by 1995.

The report points out that the international hotel industry depends heavily on business travellers, who account for 55 per cent of occupancy of the world's 10.6m hotel bedrooms and provide hoteliers with $75m in revenue.

Tokyo, at $383 a day, is deemed the most expensive city for business travellers. London is the most popular with international executives.

International Business Travel 1988; Economist Intelligence Unit, 40 Duke Street, London, W1A 1DW; £175.

Tour operator plans £100 flight delay compensation

By David Churchill

HOLIDAYMAKERS who face airport delays of 12 hours or more next summer will be given extra compensation of £100 each in addition to their holiday insurance, under plans announced by Redwing Holidays, the UK's fourth largest tour operator.

Mr Vic Fatah, managing director of Redwing, which trades under the Enterprise, Sovereign and Sunmed names, said: "The image of Britain's tour operators has taken a hammering this year and we think it is important to relieve people's fears about holidays."

The Office of Fair Trading last month produced a report suggesting holidaymakers received poor service from tour operators. An earlier European Commission survey showed Britons made more complaints about package holidays than those of any other country in Europe.

Mr Fatah said this summer's delays could end the operators' price war: "Holidaymakers' overriding concern is to buy a holiday that fulfils expectations," he said.

MANAGEMENT

Few Western multinationals have succeeded in creating the sort of organisational matrix that is needed to combine all the benefits of decentralisation (such as the high motivation of small teams, closeness to the marketplace, speed of decision-making and implementation) with those of co-ordination (such as maximisation of the company's scale and presence across its business units, its product markets, and its geographic territories).

This balancing act requires managers to report in at least two directions at once: either to both a functional chief and to a business unit boss, or to a geographic centre in one country and a global division or business unit in another.

All too often, multinationals' attempts at "matrix management" have foundered on internal in-fighting and bureaucracy. The net result has been competitive sluggishness rather than speed; Philips, the Dutch electronics giant, is a particularly notorious example.

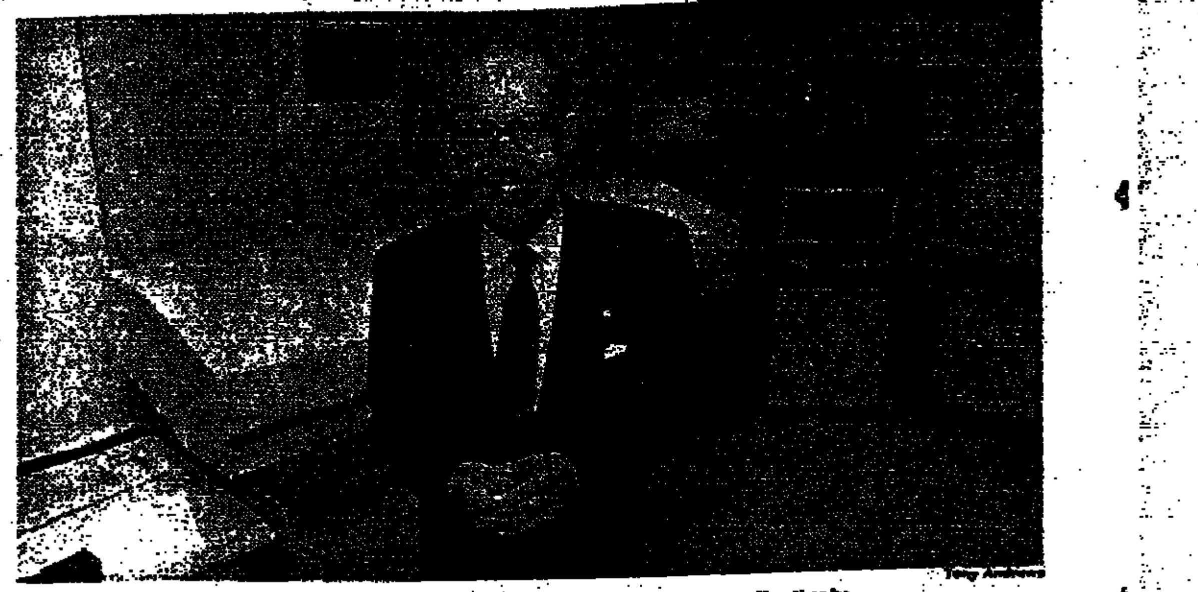
Traditionally, companies have reacted to the difficulty of managing matrices – their own or other people's – in one of two opposed ways.

Some have centralised control over almost everything, as at Philips and Black & Decker, the US appliances group.

Others, like GE of America until a few years ago, have decentralised almost to the extreme, retaining barely any co-ordination across divisions and business units, and precious little guidance – other than financial – from head office.

Most British electronics companies are still organised on a decentralised basis, a fact which is harming their global competitiveness, according to McKinsey & Co, the management consultancy. It says: "Decentralisation . . . has limited the scale of ambition to that of the units rather than the company as a whole."

Crosfield: a graphic example of an organisational balancing act



Tony Andrews

James Salmon: strategic business units allow him to delegate more effectively

Christopher Lorenz explains how the medium-sized British printing systems multinational is attempting – where bigger fish have failed – to master matrix management

Most people outside the printing and publishing industries have never heard of Crosfield Electronics. Yet this medium-sized British multinational is trying to pull off a tough management trick which has floored many famous global giants, from Philips to US General Electric.

What Crosfield's managing director, James Salmon, is attempting is precisely the sort of organisational balancing act which his counterparts at the much better-known GEC, Plessey and Racal have this summer been attacked for shirking: the construction of a matrix structure suited to today's global markets, which combines considerable decentralisation of the company's businesses with the benefits which flow from a fair degree of central co-ordination of strategy, technology, marketing and production.

In pitching for a workable combination of these apparent opposites, Crosfield possesses at least two obvious advantages over the likes of both GEC and those companies which have tried matrix management and, like Philips, suffered severely (see above).

Founded in 1947, and now part of the De La Rue group, Crosfield has fewer entrenched attitudes to overcome. With only 3,000 employees and revenues of £212m, it is also relatively small, although it exports 85 per cent of its output and is probably the most thrusting of three world leaders in the supply of computerised systems for the graphic, design, printing, news publishing and communications industries.

These advantages are reinforced by Crosfield's remarkably open culture. Frank Bretherton, one of the many senior managers in the company with experience within at least one American multinational, says: "It's the most unpolitical place I've worked at." This openness was crucial to the participative way in which the matrix structure was decided two years ago, and top management jobs allocated, as well as to Crosfield's ability to resolve most teething troubles as they arise.

By 1986, says Salmon, the fast pace of Crosfield's growth – over 35 per cent a year for several years – had begun to slow its decision-making and to create various other "creaks and groans" in its traditional functional structure. This arrangement, under which all managers reported to central departments such as research and development, production, marketing, and sales, was finally rendered inadequate when, in the second quarter of that year, Crosfield made a spate of acquisitions in the UK and US.

"Suddenly, we were serving much

This openness was crucial to the way in which the new structure was decided

broader market segments," says Salmon. "We used to sit here at night saying 'how on earth are we going to structure ourselves?'. We needed an organisation that would handle not only these acquisitions, but more in future." Several have been made since 1986, the most recent being a small US design systems company this summer.

Apart from the need to keep Crosfield's product development in the closest possible contact with its various market segments, and to speed decision-making, one of the many causes for concern was the growth in Salmon's own "span of control". Acquisitions had increased to 10 the number of directors reporting straight to him, which he considered excessive. "If you have a very broad, flat organisation and all the decision-making is coming up the line, you tend to become a bottleneck," he argues. "I felt that by breaking up the organisation I'd be able to delegate more effectively."

Given the many natural linkages between Crosfield's different businesses, a complete GEC-style decentralisation was never even considered. Instead, it was decided in September 1986 to go for an ambitious matrix consisting of five co-ordinated "strategic business units" or "SBUs".

The die was cast at an extremely intense three-day meeting well away from Crosfield's headquarters in Hemel Hempstead, just north of London. Salmon's top eleven managers attended, to debate not only the company's organisational future but their own suitability for the various posts within it.

In essence, the meeting's analysis of the characteristics of Crosfield's businesses concluded that, to gain the greatest commercial effect, any subdivision of them must be market-focused; other companies have split themselves on the basis of product differences, so that several different people call on the same customer. It was agreed that the company should be broken into five market areas. Each would not only have profit responsibility, but its own product and marketing strategy.

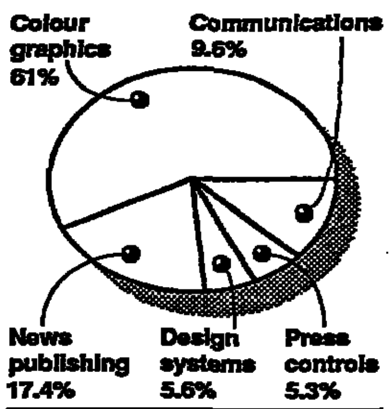
For an enterprise which had not even operated simple profit centres – with the exception of one product line – "it was a massive jump we were making," says Salmon. "The accounting systems involved would have to be enormously complex."

An SBU structure was obviously feasible for an easily separable unit; indeed, Crosfield's once-troubled Press Controls business had been operating in this way for almost two years, with spectacular results in terms of motivation, customer orders and profitability. For a set of businesses with much more in common, especially engineering skills and shared products, it was a costlier exercise altogether, and far more daunting. But the meeting felt there was no viable alternative.

Such was the atmosphere of the event that, by the end of it, the participants had laid down a top-level structure which involved two members of the management

Crosfield's strategic business units 1987-88

TOTAL SALES £212m



committee voluntarily moving down a level to reduce the "span of control" problem. Salmon now has only half a dozen "direct reports".

The new structure was announced throughout the company in February 1987. Implementation began a year ago and is still continuing.

To encapsulate the workings of the Crosfield matrix is far from easy. For one thing, it is three-dimensional; the five SBU directors share power and responsibility for sales and service with the office general managers in each of 10 countries; for product development, personnel and almost every other activity they share control with a set of functional departments at head office.

The picture is complicated further by the fact that not all the SBUs have the same range of direct authority. As director of Press Controls, Frank Bretherton has the broadest span: finance, strategy, marketing, sales and service, product development, and final assembly (though not component manufacture).

But Colin Jones, his counterpart at the latest and largest SBU, Colour Graphics, has direct control only over market and product strategy. At least for the present, everything else is what Crosfield calls "matrixed": technically responsible either to the general managers in each country or to headquarters, but subject to the SBU's persuasion. Colour Graphics is unlikely to become a fully-fledged SBU while it accounts for over half Crosfield's revenues. Moreover, some product development is particularly difficult to separate from the fundamental development work for every SBU.

In between these two extremes of authority lie the other three SBUs, which have varying degrees of control over R&D and production, and only "dotted line" authority over sales and service, which is vested in the country managers.

"We have to manage through influence rather than direct line authority," says Colin Jones. "There are difficulties, but they're not bad compared with Xerox" (one of his past employers).

Though Colour Graphics only became an SBU last autumn, Jones can already detect the benefits of having a marketing team focused on the needs of a particular set of customers.

At the other end of the SBU spectrum, Frank Bretherton of Press Controls may have the greatest official range of authority, but he has had some teething troubles with the new system. The effective sharing of international sales responsibilities with country managers abroad did not work well at first, and some tensions have arisen because of lack of spare capacity at Crosfield's main production plant in Peterborough, which supplies his components. But he has personal connections with managers at the factory "so it works all right," he says.

That the matrix is a living, shifting organism with a constant flow of new problems is evident from Salmon's changing view of the most sensitive issues of the moment. Asked a few months ago to name

The fast pace of growth had begun to create various 'creaks and groans'

the key ones so far, he said country managers needed reassuring that they were still the prime movers in their market areas, and that "the SBUs are there to support them, not take over from them".

Crosfield's accounting resource had been under pressure. Salmon also cited three R&D items: budgeting was proving sensitive; separation into specialised SBU development locations was as tricky as expected; and the introduction of "programme management" to co-ordinate SBU development was badly needed.

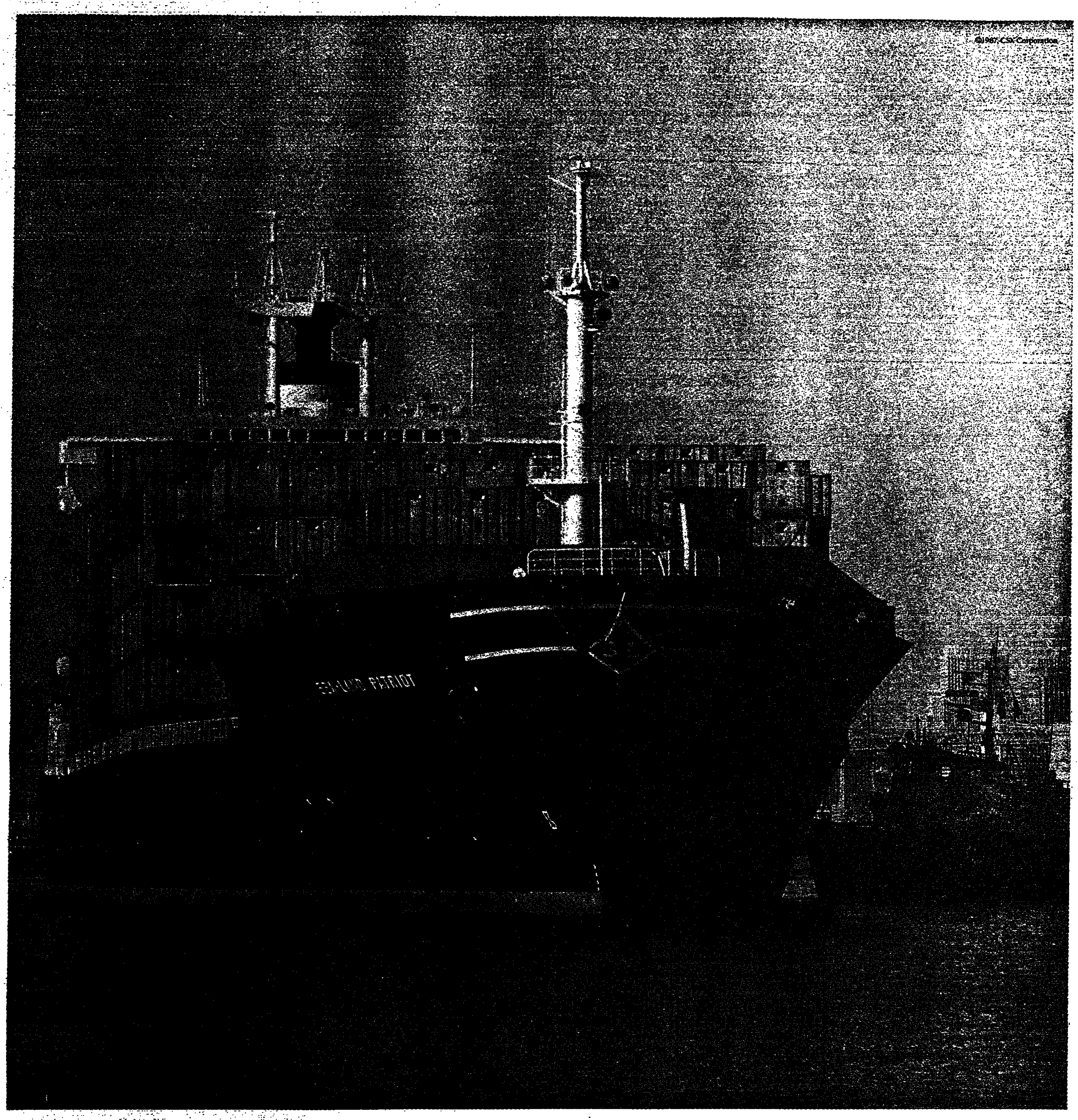
With the introduction of the SBUs, each of which has its own promotional literature, there had also been a danger of fragmentation of Crosfield's corporate image in the minds of its customers. This was overcome by a major corporate identity redesign last year, together with a set of tight new design procedures for the SBUs. (These helped make Crosfield the joint winner of the 1987-88 FT/London Business School Design Management Award - see this page, July 6.)

While some of these issues have already been resolved, others will take time to overcome. But Salmon now adds several more to his list, including the fact that he has just had to appoint several people to co-ordinate SBU relations with particularly large customers. What he calls "a lot of other niggling little issues" have surfaced between the SBUs, including slight technical differences in criteria for software development.

To manage such inevitable tensions across the matrix, a quarterly meeting of SBU directors has just been instigated. Salmon had hoped that issues like these could be settled by his two deputy managing directors (one technical, the other commercial) "handing out edicts," as he puts it. Now he says "it doesn't work like that – we need a more participative approach."

As one of his colleagues says: "We keep stopping and checking the matrix equation, and recalibrating it, rather than thinking we've found a magic formula – that's the mistake the American multinationals have made."

Whether a matrix which relies on such a degree of collegiality and informality will still be workable when Crosfield has grown to several times its size is debatable. The Board considers that it would certainly be feasible with 6,000 people, and even 9,000, but not with 18,000. In the meantime Salmon admits that "there is a cost in operating the matrix," but says this is more than offset "by the sharper profit focus and market orientation which the new structure has created."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SEA-LAND PATRIOT

CONSTRUCTION CONTRACTS

St Johns Wood Synagogue

Among contracts, totalling £13.5m, awarded to MOWLEM BUILDING is a £9.5m design and construct project for Abbey National Homes and the Liberal Jewish Synagogue.

The joint-venture project involves the construction of a synagogue and 46, high-security, luxury flats in St Johns Wood Road, opposite Lords cricket ground. The portico and facade of the 70 year-old synagogue, both in Portland stone, will be retained. The seven-storey flats will radiate from the synagogue. Mowlem is scheduled to hand over the synagogue shell to a specialist fitting-out contractor in October 1989. The entire project is due for completion in June 1990.

The company has started work on a £3.5m refurbishment of Brooke House School in Hackney for ILEA. It has also been awarded a £1m contract by the Swanmill Paper Co in Swanley, Kent. The factory extension is due for completion in spring 1989.

At Ravenscourt Place, W6, Mowlem has been appointed to complete six luxury flats for Abbey National Homes. The project, valued at £325,000, will last 20 weeks.

Sea defence

KIER NORTH EAST has been awarded contracts worth over £10m. Civil engineering projects include a sea defence contract at Whitby (£2.94m) for Scarborough Borough Council; strengthening the foundations of a cooling tower at Cottam power station (£1.1m) for the CEGB; reconstruction of a bridge at Copmanthorpe for British Rail; and a bridge replacement for Bradford M.B.C. at Ilkley. Building contracts include a regional distribution warehouse for ICI paints division (£2.8m) at Goole; two contracts for York Health Authority at Acomb, including handicapped accommodation and a community centre; further contracts for Leeds Eastern Health Authority; and alterations to BBC headquarters in Leeds.

Transformation project at Falmouth

Following its completion of the Lands End Heritage development last month, E. THOMAS CONSTRUCTION, of the West Country division of Mowlem Regional Construction, has signed a second contract with Land Leisure - the Port Pendennis Development Scheme.

The project will result in the transformation of a derelict waterside site at Bar Road, Falmouth, into a residential, shopping and recreational area.

The civil engineering works contract is valued at £4.5m. It involves construction of 450 metres of sheet-piled sea wall, an impounded marina basin and a hydraulically operated half-tide lock gate. A further 250 metres of sheet-piled wall will enable 1.3 hectares of land to be reclaimed from the sea for the house-building contracts.

Maritime experience

Additional areas are being reclaimed for a maritime leisure experience centre and a slipway for the RNLI. A total of 3,422 sheet piles are to be driven with a total weight of 1,656 tonnes.

Building includes 213 luxury homes, a harbourside promenade, shops, restaurants, a maritime experience centre and service roads, parking, and landscaping. All the residential units will have concrete piled foundations and will be of traditional construction with a mixture of external finishes.

The civil engineering works have started and are due for completion by the end of the year. The main building work commences this month, and is scheduled for a phased completion over a period of 2½ years.

Three listed cottages at the former Bryant & May match factory in Fairfield Road, Bow, London, are being converted by R. MANSELL into ten flats, intended mainly for first-time buyers. Another three cottages, still occupied, will be refurbished. The project is part of a £30m re-development scheme for the factory site, which has lain vacant since closing in the early 1970s. To be called Bow Quarter, there will be leisure and retail facilities, and more than 600 homes. The cottages, built in the 1870s, are being gutted, then converted into flats – eight one-bedroom, one two-bedroom, and one studio. External architectural features will be retained. Work has started on the £450,000 contract for Kentish Homes, and is due to be completed in April 1989.

Moat Houses projects

WEBB (CONSTRUCTION), Romford, has received orders worth £6m for two projects from Queens Moat Houses. The major scheme, in Romford town centre, is a £6.6m office block of 100,000 sq ft over five storeys on a design and build contract. The block consists of a steel-framed metal and concrete deck with traditional facing brick and curtain wall cladding.

The second scheme is for a 28-bedroom extension, and alterations and extension to conference facilities at Leicestershire Moat House Hotel.

Spread of work for Douglas

R. M. DOUGLAS CONSTRUCTION has been awarded contracts totalling over £23m. At Leamington Spa work has begun on a superstore. The contract, valued at £7.27m, includes construction of the store, petrol filling station, coffee shop, ancilliary retail units and external works.

Following the phase I building of a shell warehouse for Tesco in Didcot, Oxfordshire, Douglas has won a £6.3m contract for phase II, to fit out the temperature-controlled composite distribution centre. The 2,000 sq metre building will be divided into sections of frozen, cold chill, chill and ambient areas. There is a plant room to contain the refrigerator equipment, as well as office facilities.

Standard Life Assurance has awarded Douglas a £2.25m contract to fit out high technology shells at Oxley Pavilions, Watford.

Following projects for exhibition consultants, Imagination, Douglas has won two further contracts totalling £5.1m in Northampton and London.

Douglas also continues its relationship with MacDonalds Hamburgers with two contracts totalling £2m to build MacDonalds Freestander restaurants at Aylesbury and West Thurrock. Construction, which in both cases consists of a simple steel frames and brick and curtain cladding, will be completed by December.

DIARY DATES

FINANCIAL

TODAY
BOARD MEETINGS-
Finals:
Dudley Jenkins
Oceonics
Regentcrest
Interims:
Edinburgh Fin. Tst.
Noble & Lund
Richardson Westgarth
Transport Development Group
Unidare
Unilever

DIVIDEND & INTEREST PAYMENTS-
Abbott Labs. 30cts.
African & European Inv. 6% Cum. Prf. 3pc.
Anderson, Strathclyde 8% Un. Ln. 1986/91 4pc.
Anglo American Inv. Tst. 6% Cum. Prf. 1.4813p
Anglo Leasing 2.8p
Aspray 3.5p
Beckenham Group 1p
Bosses Mansions Pptt 8.75p
British Land 2.8225p
Brunswick Corp. 11cts.
Calor Group 10.5p
Capital Variable Rate 1990 2pc.
Celestion Inds. 1p
Chase Manhattan 54cts.
Chloride Group 1.5p
Do. 6% Cum. Prf. 2.1p
Colgate-Palmolive 37cts.
DAS Invs. 57.5cts.
de Morgan 1.85p
Dobson Park Inds. 1.8p
Egerton Tst. 2p
Fishguard & Rosslare Rlwys.& Hbrs. 3½ Gtd. Prf. 1.225p
GLC 6¼% 1990/92 3⅛pc.
Hasbro 3cts.
Hawtal Whiting 4p
Hills Ergonom 1.5p
M. & G. Second General Tst. 11p
Malartic Hygrade Gold Mines 10cts.
Marsh & McLennan 60cts.
Norcros 10.4p
Pacificorp 66cts.
Raeburn Inv. Tst. 8p
Royal Tst. Dollar Inc. Fd. Ptg. Red. Prf. 25cts.
Scottish Metropolitan Property 2p
Do. 5¾% 1st. Mtg. Deb. 1988/93 3⅜pc.
Do. 10¼% 1st. Mtg. Deb. 2016 5⅛pc.
Sears 7¼% Un. Ln. 1992/97 3⅝pc.
Spice 1.2p
Storehouse 5.5p
Thermal Scientific 2.8p
Tongaat-Hulett Group 36cts.
Trinity Intl. Hldgs. 5% Cum. Prf. 1.75p
Warner Comms. 14cts.

TOMORROW
COMPANY MEETINGS-
Berkeley Group, Old House, 4, Heath Road, Weybridge, Surrey, 10.00
Pepe Group, Hilton Hotel, Park Lane, W., 11.00
Rowe Evans Invs., Great Eastern Hotel, Liverpool Street, E.C., 12.00
Stead & Simpson, Fosse Way, Syston, Leicester, 2.30

BOARD MEETINGS-
Finals:
Glenbel Inv.
Gold Fields of South Africa
Interims:
Bardsey
Blagden Inds.
De Beers
F & C Enterprise Tst.
First Scottish American Tst.
Fleming Mercantile Inv. Tst.
Microvitec
Plasmec
R.E.A. Hldgs.

DIVIDEND & INTEREST PAYMENTS-
Bankers Tst. Intl. Cap. Gtd. Fltg. Rate Sub. Nts. 1996 $196.46
Barr (A.G.) 3.25p
Homestake Mining 5cts.
Interfirst Texas Finance Gtd. Fltg. Rate Nts. May 1989 $196.46
Racal Elect. 3.37p
Treasury 2½% I.L. 2013 £1.4475
Wells Fargo Fltg. Rate Sub. Nts. Feb. 1997 $196.46
York Trust 1.55p

WEDNESDAY AUGUST 17
COMPANY MEETINGS-
Investment Co., Fairfax House, Fulwood Place, Gray's Inn, W.C., 12.00
Knobs & Knockers, Holiday Inn, 128, King Henry's Road, N.W., 11.00
Logitek, 1, King Street, Manchester, 12.00
Mountview estates, Hotel Russell, Russell Square, W.C., 12.00

BOARD MEETINGS-
Finals:
Fife Indmar
Gnome Photographic Prods.
Resort Hotels
Smith (W.H.)

Usher (Frank)
Interims:
Baynes (Charles)
Britannic Assurance
CCF Group
Gordon Russell
Marchant Manufacturing Estate
Nichols (J.N.) (Vimto)
Royal Insurance
Standard Chartered
Ward Hldgs.

DIVIDEND & INTEREST PAYMENTS-
Berkeley Group 2.5p
Canadian Imperial Bank of Commerce Fltg. Rate Sub. Cap. Debs. 2005 $360.73
[illegible]
Hongkong & Shanghai Banking Prim. Cap. Un. Fltg. Rate Nts. $179.82
Latham (James) 6p

THURSDAY AUGUST 18
COMPANY MEETINGS-
Applied Holographics, Rivenhall Motor Inn, Rivenhall End, Witham, Essex, 11.30
British Gas, National Exhibition Centre, Birmingham, 2.15
Friendly Hotels, Connaught Rooms, Great Queen Street, W.C., 11.00
Fuller, Smith & Turner, Griffin Brewery, Chiswick, W., 11.00
Greene King & Sons, Theatre Royal, Westgate Street, Bury St. Edmunds, 12.00
[illegible], Cloth Fair, E.C., 11.30
Whitney Mackay-Lewis, Royal Institute of British Architects, 66, Portland Place, W., 11.30

BOARD MEETINGS-
Finals:
Aerospace Engineering
Genbel Invs.
Newmark (Louis)
Interims:
Amex
Anglo American Ind. Corp.
British Telecom
Cattle's Hldgs.
Clarke (T.)
Cons. Tern Inv.
Johnson Group Cleaners
Liberty Life Assoc. of Africa
North Midland Construction
Ratcliffes (G.B.)
Rentokil Group
River & Merc. Geared Cap. & Inc. Tst.

DIVIDEND & INTEREST PAYMENTS-
Fuller, Smith & Turner 3.8p
Greene King & Sons 6.2p
New Zealand Fltg. Rate Nts. 1997 £96.19
Oil & Natural Gas Commision Gtd. Fltg. Rate Nts. 1997 $360.21
Rowe Evans Invs. 1.5p
Southern Business Group 2.21p
Treasury 8¼% 1993 £1.4822

FRIDAY AUGUST 19
COMPANY MEETINGS-
Campbell & Armstrong, Portland Thistle Hotel, Portland Street, Manchester, 12.00
Learmonth & Burchett Mngmt. Services, CBI Conference Facility, Centre Point, 103, New Oxford Street, W.C., 4.00
Marston, Thompson & Evershed, The Albion, Shobnall Road, Burton-on-Trent, 12.00
Toothill (R.W.), Durham Way, Aycliffe Industrial Estate, Newton Aycliffe, Co. Durham, 12.00

BOARD MEETINGS-
Finals:
Flogas

DIVIDEND & INTEREST PAYMENTS-
BPB Inds. 5.8p
Beecham Group 8.7p
Sisichi Tin 0.75p
Centrust Savings Bank 20cts.
Do. Series 1 Ptg. 12cts.
Colorvision 2.6p
Denmans Elect. 1.5p
Evans of Leeds 3.5p
Halma 1.008p
KLP Group 2.1p
Lloydstrust Gilt Fund Ptg. Red. Prf. 28p
Mercury Common Market Tst. Ptg. 75p
Mooks & Crape 2p
NZI Corpn. NZ30.065
New Zealand Fltg. Rate Nts. 1998 $347.57
Northern Foods 6.75p
Pilkington 6.05p
Powerscreen Intl. 2.5p
Walpac 0.55p
Woolwich Equitable Bldg. Society Fltg. Rate Ln. Nts. 1995 £197.95

SATURDAY AUGUST 20
DIVIDEND & INTEREST PAYMENTS-
Caterpillar 18.75cts.
M. & G. Recovery Fund 6.1p
Marston Thompson & Evershed 2.85p
Security Pacific Corp. 49cts.

SUNDAY AUGUST 21
DIVIDEND & INTEREST PAYMENTS-
Blue Arrow 0.8p
Exchequer 10½% 1997 5¼pc.
Treasury 10% 1992 5pc.

Trade Fairs and Exhibitions: UK

Current
Gifts Fair (until August 18)(0395 272010)
Hove Town Hall

August 16-18
Home Entertainment Dealer Show – HEDS (021-780 4171)
NEC, Birmingham

August 18-21
Antiques Fair (0444 459917)
Kensington Town Hall

August 21-24
International Jewellery Exhibition (0935 20721)
Business Design Centre

August 27-29
Town and Country Festival (0203 696969)
Kenilworth

August 28-31
International Menswear Fair – MAB (01-437 8754)
Earls Court

September 11-14
Gifts West (01-837 2400)
Bristol Exhibition Centre

September 18-24
British Marine Industries Federation International Boat Show(0703 737400)
Southampton

September 27-29
Water and Environmental Management Exhibition and Conference (01-637 2400)
Eastbourne

Overseas Exhibitions

August 16-18
Fashion Week 01-937 8050)
Tel-Aviv

August 22-24
Nordic Fashion Fair (01-486 1951)
Helsinki

August 25-28
Office Equipment, Technology and Computer Systems Exhibition (0494 729406)
Singapore

August 30-September 1
Traffic Engineering and Road Safety Exhibition - TRAFFEX (01-636 3956)
Canberra

September 1-6
International Machinery, Factory Automation & Electronic Technical Exhibition - MECT-ASIA (0494 729406)
Taipei

September 4-10
International Autumn Fair (0375 392222)
Leipzig

September 4-8
Crystalware,China, Ceramics, Jewellery, Gifts and Furnishing Articles Exhibition - EUROPACADO (01-434 1825)
Brussels

September 6-10
Building and Construction Exhibition - CONBUILD (021-454 3385)
Sydney

September 7-9
International Autumn Fair (01-977 4551)
Vienna

September 11-15
International Autumn Fair (Zagreb 41/511-666)
Zagreb

September 13-18
International Motor Car Workshop, Service Station Equipment and Auto Spare Parts and Accessories Trade Fair (01-734 0543)
Frankfurt

Business and Management Conferences

August 30,31 and *September 1*
Financial Times Confrences: Commercial aviation to the end of the century – Expansion in an era of accelerating change (01-925 2323)
Hotel Inter-Continental, London

September 8-9
CBI: Increasing your sales to the Ministry of Defence (01-379 7400)
Centre Point, London WC1

September 8-9
The Industrial Society: Industrial relations for new managers (01-262 2401)
Central London

September 9
Channel Tunnel Conference: Channel Tunnel - make it your business (0904 653655)
Viking Hotel, York

September 12
CBI/Marketing Society: Mastering the market (01-379 7400)
Centre Point, London WC1

September 13
CBI Conferences: European standards – Who needs them? (01-379 7400)
Centre Point, London WC1

September 14-15
Employment Research Unit annual conference : New forms of ownership – management and employment (0222-42588)
Cardiff Business School

September 16
The Industrial Society: Harmonisation – A one-day seminar to examine the principles and practice of harmonising terms and conditions of employment (01-839 4300)
3 Carlton House Terrace, London SW1

September 16
Hawksmere: Insurance aspects of property investment and development (01-824 8257)
London Press Centre

September 21-23
International Chamber of Commerce: Investing for growth - opportunities in worldwide deregulation trends (Paris (1) 45.62.34.56)
Istanbul

September 22-23
The Institute of Chartered Accountants: The 1988 Industrial Tax Conference (0908 668833)
Holiday Inn, Leicester

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes in the details published

Company Notices

Legal Notices

IN THE CHELMSFORD COUNTY COURT
In Bankruptcy No 38 of 1988

Re: THOMAS JOHN RAE

We FOX MILTON & COMPANY LIMITED registered office - 71/73 Carter Lane, London EC4V 5EQ

Petition the Court that a Bankruptcy Order may be made against:
THOMAS JOHN RAE
of the Manse, Stambourne, near Halstead, Essex

and say as follows:-

1. The Debtor has for the greater part of six months immediately preceding the presentation of this Petition resided at The Manse, Stambourne, near Halstead, Essex within the District of this Court

2. The Debtor is justly and truly indebted to us in the aggregate sum of £18,628.27 being the agreed sum due to your Petitioner for stocks and shares purchased and sold for the Debtor in December 1985 namely £18,000 and interest thereon of £628.27 from 18 February 1988 to 19 May 1988 in accordance with the Order of The Honourable Mr. Justice Drake dated 18 February 1988.

3. The above-mentioned debt is for a liquidated sum payable immediately and the Debtor appear to be unable to pay it.

4. On 19th May 1988 Judgement was obtained in the High Court of Justice, Queens Bench Division in an action the short title and reference to the record whereof is Fox Milton & Company Limited -v- Thomas John Rae Number 1985 F No. 1527 in the sum of £18,628.27 following which execution was issued at the High Court respect of the debt and on the 27th May 1988 the Sheriff made a return to the effect that the execution was unsatisfied as to the whole and the above-mentioned debt represents the amount by which the execution was returned unsatisfied.

5. That we do not, nor does any person on our behalf, hold any security on the Debtor's estate, or any part thereof, for the payment of the above-mentioned sum.

Presented and Filed the 28th day of June 1988, at 10.00 hours and allotted to Mr Registrar, D.L. Lusty.

Personal

Rentals

ARTS

ARCHITECTURE

Bright ideas for the new metropolis

Exhibitions about ideas are the best ones. *Metropolis - New British Architecture and the City* - is full of ideas and is thoughtful as well as amusing. The show is at the Institute of Contemporary Arts in London and is part of a season of architecture and design sponsored by Chair Design Associates which runs until the beginning of October.

The ICA has commissioned six British architects to look at the design problems of the modern city. All of them are known for their innovative work and most are more famous overseas than at home. The brief was broad, asking designers to consider the impact of the less tangible developments in city life, such as information systems, communications, and the computer. These newer elements have their influence, but I think it is also fair to look to architects and designers for tangible visions – both to inspire and to warn us about the future shape of city life.

Nigel Coates and Doug Branson are the brightest and best architects in the exhibition. They have called their submission The City in Motion, and it is a consideration of imaginative possibilities for the huge Kings Cross transport interchange. Nigel Coates has, until now, been best known for his interiors, mostly carried out in Japan, and for his promotion of the idea of a more narrative approach to architecture. He is, in my view, one of the most talented designers around and – unusually for an architect – he actively encourages younger British artists to contribute to his schemes. He has almost Baroque tastes laced with more than a dash of Gaudi. It is strong meat and sometimes appears almost chaotic, but it is also rich and powerful.

Because Kings Cross is likely to be one of the major Channel Tunnel terminals, this scheme highlights the European possibilities. Coates christens the place "Eurofields" and suggests a "blistering electronic countryside," surrounding a shopping broadway with commercial embassies from all the European countries. To turn St Pancras Hotel into a large duty-free Harrods seems an entirely logical piece of lateral thinking. At the northern edge of the site a Gothic casbah looks over a landscape composed of butter mountains and wine lakes. I am sure that the developers of Kings Cross should be including some of Nigel Coates's ideas, and the clash of his baroque thinking with the smoothness of Norman Foster's plan can only be beneficial.

Ron Arad, like Coates, is from London's Architectural Association and has just won the prestigious commission to design the interior of the Tel Aviv Opera House. He runs a design office and workshop called One Off. His entry to this exhibition is the most cryptic and least interesting. A sculptural welded metal staircase stands in front of an illuminated wall: it says nothing about metropolitan possibilities but quite a lot about designer indulgence.

Another design unit that has grown out of architecture is Future Systems, a firm based in London and Los Angeles. They have produced a superbly engineered landmark: a tower for the second millenium to stand in the centre of Hyde Park. It looks like a huge giraffe standing some 500 metres high. At the top is an observation platform with restaurants and bars. Future Systems is a think tank for the application of design to industry and science, and this project is entirely feasible – indeed British Telecom is already interested.

Alan Harper

A landmark tower for the second millenium, designed by Future Systems

Daniel Weil and Gerald Taylor are product designers from the Royal College of Art stable. One of their best known products is the bag radio – a clear plastic bag that exposes all the working parts of a transistor. They feel that the motor car is the one permanent problem for any city like London. As so many of these metal beasts are simply tethered for a large part of their lives in a completely useless fashion outside the house, why not wire them up and turn them into spare rooms? A planners nightmare and probably a passport to the shanty town, but undoubtedly thought provoking. The drawings of the sewing machine, the gym and the DIY equipment all sitting in the car do have an appeal, especially to anyone who has to operate in a confined urban space.

Another kind of interior is the wall of cupboards designed by John Pawson and Claudio Silvestrin. They feel that we lack free space in the city and so have produced a white wall of doors – open each one and there is a black and white photograph of one of the essentials of life. This is a contrived conceptual exhibit that overstates the obvious. We know that we all need space. The point is that we all need different spaces, and some lives are more cluttered than others. The inhumanity of this white box is chilling.

There is nothing white about the work of the architect Zaha Hadid, whose colourful three dimensional construction is like being inside a Russian Constructivist painting. Her work is always the same – the clashing planes, the vivid colours, the sharp angles. She is really a derivative painter and this work shows the limits of an endlessly repeated single idea.

The ICA exhibition will end in a conference which looks like a predictable mixture of Anglo-American architectural gurus. The danger of such events and of exhibitions such as *Metropolis* is that the ideas are simply chewed over by an incestuous group of professionals. It is developers and the public who should be conferring with architects and designers to ensure that the building boom does not just continue to erect the ideas of the 1960s.

■ At the Royal Academy from Tuesday August 16 until the end of the month 100 contemporary architectural models are on show. Everyone likes models, and these range from dolls houses to the Great Model of St Paul's. This is a free summer treat promoted by the Association of Consultant Architects and is a tribute to the skills of the model maker as well as an intriguing architectural experience.

Colin Amery

Man of the Moment

STEPHEN JOSEPH THEATRE IN THE ROUND, SCARBOROUGH

It is all too likely that a convicted thief should endear himself to the great British public; all too feasible that he should become a media pundit, a cross between Parkinson and Jimmy Saville; all too probable that he should live in luxury, tended by suave managers and courted by ambitious TV directors. And all too consistent that a bright BBC lady should arrange a meeting after 14 years between this ex-thug and the wet little bank clerk who "had a go", causing the raider's shotgun to blast the face of a pretty girl hostage.

This is Alan Ayckbourn territory, bristling with such familiar landmarks as social embarrassment, bullying brutality confronting ineffectual decency, the hilariously inadequate language of the English under emotional pressure, and sudden death. Not since *Way Upstream* has the vision of society been blacker, the humour more sardonic (*A Small Family Business* is a cheerful farce in comparison). Not for some time has Ayckbourn produced such a compact, tightly-constructed play. Never has he looked more like the Ben Jonson of the Welfare State.

Ex-criminal telly star Vic is depicted by Peter Laird with the appearance of Ronnie Biggs, the affable media cockney of Derek Jameson (well, almost) and the ingratiating bonhomie of Bruce Forsyth. It soon emerges that he is a viciously unkind autocrat with a tendency to sanctimonious self-justification. Speaking of his crime he piously clasps his hands in prayer: "A miracle she didn't lose an eye – I thank God for that." A pause. "She did lose an ear, though," avers the wimpish bank-clerk with rabbity earnestness. "An ear's not the same as an eye," snaps Vic. The house rocks with laughter until suddenly realising the cruelty that Ayckbourn has insidiously persuaded us to accept.

In a masterly unravelling of the plot the author leads us to chortle at the descriptions of the little man's dottily neurotic wife with her dislike of going out and being stared at; a running gag until we casually learn *she* is the mutilated hostage. Ayckbourn's comedy increasingly manages to freeze the smile on our lips; doffing the jester's cap the clown reveals horns. To the play's basic paradox – that a Press-acclaimed hero can be forgotten and his life ruined while the villain achieves fame and wealth – is added the irony that virtue is unattractively embodied by the chinless solemnity of suburban weediness. This is brilliantly personified by Jon Strickland who bridles, gawps and flinches fatuously through what, we slowly realise, is the admirable philosophy of a good man. The violent climax reveals Ayckbourn as an almost religious painter of cruelty versus innocence.

He directs his 35th play impeccably on Michael Holt's sunny villa set, complete with crucial swimming pool, and produces beautiful performances. Lesley Meade, riddled with guilt at her husband's misdeeds, conveys inner agony through deathly, smiling politeness and faltering euphemisms; Simon Chandler, the star's languidly fastidious agent, has never been better, though not quite in focus as a TV narrator, Lynette Edwards is spot-on when bossing the camera-crew or patronising her subject.

The evening belongs to Mr Strickland's stiff Lowry-figure, the stilted little man with no strong views on anything except perhaps evil. "It's often hard to recognise but there's a lot of it about." There is, there is; and Alan Ayckbourn is the joking Manichean prophet of the evil in all of us.

Martin Hoyle

Peter Laird in *Man Of The Moment*

Where Elvis meets the Presbyterian Ladies College

Michael Coveney finds himself outnumbered on the opening weekend of the Edinburgh Festival fringe

In weather conditions of clement volatility – blue skies, squalls of wind, sudden showers – the 42nd Edinburgh Festival swung into action over the weekend with African drummers in Princes Street and a cavalcade that included representations from the Elvis Presley Fan Club and the Presbyterian Ladies College of Perth, Australia.

Crowds seem to be bigger than ever. Traffic is moving so slowly through the West End that drivers and passengers can be conveniently leafleted by fringe publicists as they swing round into the Lothian Road.

The official theatre festival starts tonight, but the fringe is already offering a cornucopia of activity. 473 companies have already taken nearly £160,000 at the Box Office, £30,000 more than at the same time last year.

Crowds flock to one-man shows. I prefer it when shows flock to one-man audiences. This happened late on Saturday night as the Festival Theatre of Southern California launched its thirteenth Edinburgh season out in darkest, rainswept Morningside, and your correspondent assumed the awesome theatrical responsibility of lone witness and judge, a role I quite like.

More of that later. Meanwhile, the mecca of new writing remains the Traverse, no longer a club and just celebrating its silver anniversary, marked with a splendidly lucid and admirably researched history by Joyce McMillan. In her final season as artistic director, Jenny Killick has assembled an attractive programme of local and international fare.

Alexander Gelman (b. 1933) is one of Mr Gorbachev's favourite dramatists. *A Man With Connections* was written in 1982 but is clearly a comedy for the age of glasnost and perestroika. It was first performed here on BBC Radio in this translation by Stephen Mulrine, with Bill Paterson as Andrei Gladkov, the corrupt construction site manager whose carelessness has caused the accident in which his son lost both his hands.

Repeating the role, Paterson goes to the very edge of black humorousness, energetically devious and calculating in a raincoat and pork pie hat, rather like a seedy comedian. Bureaucratic shenanigans are inextricably entwined with the domestic unease between the Gladkovs (Marty Cruickshank is the stone-faced, stone-walling wife). After ten months in hospital, their son is coming home. The marriage is on the rocks.

As on the radio, the piece becomes inert and contrived after ten minutes, and Jenny Killick's production is unable to prevent the comedy flagging. The wife is badly underwritten. But any domestic comedy of contemporary Soviet life must be of interest, and Mulrine's unapologetically Scots rendering is lively enough.

Simon Donald has been a notable actor in the Killick regime. His new play, *Prickly Heat* directed by Killick, is a strange but compulsive heat-crazed idyll purportedly set in Scotland. Antonio Lagarto's set uses gauze, tarpaulin, an onstage shower and crucial fridge to convey this unlikely meeting of Tennessee Williams and Ian Heggie.

Four loveless characters – a boxer, his trainer, a runaway country girl and a peculiar landlord (who keeps beers and frocks in the fridge) – jostle for position and squirt milk, oil and water over each other. The piece has been much worked on since its June premiere and is brilliantly acted by Robert McIntosh, Tom Mannion and Hilary Mclean. The author himself plays the emaciated trainer in an over-small suit, sandals and luminous green socks. I really enjoyed this one. *Prickly Heat* and *A Man With Connections* are in the upstairs Traverse. The downstairs, smaller auditorium is now an equal partner at festival time. Peter Jukes's *Shadowing the Conqueror*, smartly directed by Simon Unwin, is a repetitive encounter between Alexander the Great (Matthew Scurfield) on the eve of his last campaign and a contemporary photographer (Siobhan Redmond) on a "Portraits of the Powerful" commission. Nothing much happens at great length. Some of the writing is sharp, but most of the ideas banal, rooted in neatly antithetical concepts of antagonism and versions of reality. Alexander died, aged 32, in Babylon. Mr Scurfield expires in a mountain pass, well short of China, having opined that "corpses are the natural subject of photography." Miss Redmond, a fine actress, cannot snap her way out of this.

The Traverse Theatre Story by Joyce McMillan, with a chronology compiled by John Carnegie. Methuen, £5.95 pounds.

Australian Youth Orchestra

ALBERT HALL

At Saturday's Prom these young Australians continued the East European theme and also showed what first-rate new talent Australian orchestras have at their disposal. (Their string-players, predominantly female, lent no support to the old idea that women's playing is short on weight.) As conductor they had Sir Charles Mackerras, another Australian, and another – Leslie Howard – as soloist in a wretched piano concerto by the Australian Ross Edwards.

Described by its composer as "exuberant" and "extravert", (it proved to be winsomely naive, witlessly repetitive and scored as if for a low-budget radio band.) The "minimalism" which presumably inspired it is too crudely compromised to make any effect. Being told it is untypical of a composer who has done better things, I shall not abuse it further.

Janácek's epic *Taras Bulba* deserves more exact shaping and colour, and got it. As a candidly histrionic but heartfelt piece, it would have gained from extra touches of flexibility, and a sharper focus for the great emotive cadences in the peroration – but it went quite well enough to suggest that we lose by our London orchestras' reluctance to programme the work.

Better still was the *Symphonie fantastique*, which enjoyed better playing – in terms of ensemble, and notably from all the winds – than Berlioz could ever have expected. Mackerras honoured the repeats scrupulously (but never mechanically), rendered the drama precise, and built the finale to a rude towering height. It was a pleasure to hear. One wondered whether keen young players may not have a decisive advantage when it comes to capturing Berlioz's specially live, nervy edge.

David Murray

Sphinx

FESTIVAL HALL

The tide of ballet that has flooded London this summer is receding. The Kirov season ended in a blaze of dance glory on Saturday night with a final view of *Le Corsaire*: and withdrawal symptoms – a craving for an impeccable corps de ballet, for artists in whom classic grace is the centre of their being – are already setting in. London Festival Ballet also ended a summer stint on the South Bank with a mixed programme on Friday night in which the pendulum of taste swung between the extremes of Balanchine and Tetley/Béjart.

Given the difficulties for European dancers in dealing with Balanchine – not enough speed, psychic and physical energy dissipated in letting us know who the cast are rather than what the choreography is – it is not surprising that the emotional extravagances of Tetley's *Sphinx* and Béjart's *Wayfarer* duet should have come off best. Tetley's ballet was well cast: Susan Hogard's beauty and the delicate way she suggests the Sphinx's sensuality and sexual longings make her a fine incumbent of the role. This is a subtly voluptuous sphinx, and Paul Chalmer's elegant Oedipus, very controlled in manner, is an ideal foil. The piece is too long, but with Alessando Molin's Anubis as its third strong participant, the choreographic contortions were set out with the right air of inevitability.

Song of a Wayfarer is Béjart's entry in the Mahler dance marathon. Unlike the majority of his works, it does not cloud the issue with too many clever ideas. Craig Randolph and Darryl Norton gave sincere, well-focused performances as the hero and his shadow, and I was impressed by James Meek's unforced account of the Wayfarer songs.

Balanchine was represented by *Apollo* – sixty years old and still more modern, and more classical than much of the contemporary repertory – and *Symphony in C*. These were given well-intentioned readings, and though we accept that no other troupe can emulate the New York City idiom, Festival provide a blurred musicality, and lack the unified style to hold the text together. *Apollo* was like an illustrated tour round a masterpiece. I liked best two of the Symphony's cavaliers – Patrick Armand and Paul Chalmer, worthy of New York.

And as a *bonne-bouche*, Natalya Makarova and Peter Breuer brought Tatyana's dreams to ecstatic life in the letter duet from Cranko's *Onegin*. Flung and caught in Mr Breuer's arms, Makarova spoke Pushkin's lines to us, and we understood Tatyana's soul. Great art.

Clement Crisp

ARTS GUIDE August 12-18

OPERA AND BALLET

London

Moscow Classical Ballet in a short season with a new Swan Lake, at the Business Design Centre, Islington.

Verona

Arena Di Verona. Zorba the Greek, a ballet by Lorca Massine to Theodorakis, conducted by the composer. Also: Aida, with Grace Bumbry as Amneris; Turnadot with Ghena Dimitrova alternating with Eva Marton, and Ponchielli's La Gioconda, conducted by Christian Badea, with Bruna Baglioni and Giovanna Casolla. (596517).

New York

New York City Opera (State Theatre, Lincoln Center). The week features Lotfi Mansour's new production of Il Barbiere di Siviglia, conducted by Sergiu Comissiona, and the season's new production of Rigoletto, conducted by Elio Boncompagni and devised and directed by Tito Capobianco. (496 0600).

Lincoln Center Out-of-Doors Festival, the month-long and usually day-long free performances in the plazas and Damrosch Park feature Yoshiko Chuma and the School of Hard Knocks, a dance, music and performance art piece (Tue 6pm); Fresh Stuff, fellowship winners from the New York Foundation for the Arts (Wed 5pm); and Yane and Le Baton Magique from Paris (Thur 6pm). (877 2011).

Washington

Wolf Trap Festival. Wolf Trap Opera Company, using Maurice Sendak's whimsical sets from Glyndebourne, perform The Love of Three Oranges (Thur). (432 0200).

Tokyo

Chang Mu Dance Company from South Korea. Sunshine Theatre, Ikebukero (Tue-Thur). (987 4389). Teshigawaf/' Saburo (avant garde dancer). Outdoor Theatre, Ikebukero (Tue, Wed). (987 4389). Rudolf Nureyev and dancers from the Paris Opera Ballet. Koseinenkin Hall (Tue-Fri). (950 4666).

MUSIC

London

Ulster Orchestra, conducted by Vernon Handley, with Ernst Kovacic (violin). Elgar, Sibelius and Gerald Barry first performance. Royal Albert Hall (Mon).

City of London Sinfonia, conducted by Richard Hickox, with Heather Harper (soprano) and Wayne Marshall (organ). Britten, Bridge, Michael Berkeley, Poulenc and Bizet. Royal Albert Hall (Tue).

BBC Symphony Orchestra and Chorus and Singers, conducted by Peter Eotvos, with Sarah Leonard (soprano) and Pi-Hsien Chen (piano). Elliott Carter, Stravinsky and Franco Donatoni. Royal Albert Hall (Wed).

Monteverdi Choir and English Baroque Soloists, conducted by John Eliot Gardiner. Bach St. Matthew Passion. Royal Albert Hall (Thur).

Tokyo

Tokyo Symphony Orchestra, conducted by Ken-ichiroh Kobayashi. Mendelssohn, Brahms, Dvorak. Suntory Hall (Wed).

Keeping Tom Nice

ALMEIDA

The second play of the RSC's season in its Islington outpost is a new work of power and promise.

Peter Nichols' *Joe Egg* remains the prime example of the wry, self-lacerating comedy of affliction, the handbook of laughter-as-survival. Initially Lucy Gannon's play about grunting, writhing Tom, coming up to his 25th birthday and "spastic, epileptic and incontinent", treads the same path.

His mother Winnie keeps everything immaculate in house and garden, "ruthlessly slaughtering each weed"; and Shirley King, so good as another acquiescent, lacquered suburbanite in the RSC's *Temptation*, is beautifully complacent in the role. But, none so bland as those who will not see, she disregards her husband's anguished confession of violence towards their son, and is unaware of the "bright and breezy tortures" she herself inflicts.

Two scenes in Bill Buffery's simple staging (a green carpet in Louise Belson's set, some pieces of furniture including bed and wheelchair arranged by the cast) may shock. First when his sister (Henrietta Bess), harrowed by the lack of parental love for Tom and conscious that he is a man "in working order", attempts sexual arousal in desperate compassion. The second is when the father Doug (Richard Conway) beats him in helpless rage and guilt with the cry: "See what you've done to me!"

The father's character is the most complex, cracking under the weight of a never-changing burden as he sees the rest of his life as emptying Tom's urine-bag, washing and feeding him; appalled by his anger at the unresponding victim, and left with only one way out when a social worker voices suspicions.

The terrible family mixture of resentfulness – the father's against his "useless, senseless, stinking" son, the daughter's against her mother's "bright and cheerful patent leather court-shoe Marks and Spencer voice" – duty and love is caught in writing with its quota of laughs.

Faults include a veer towards poetry and a tendency to over-literacy. Performances are excellent, including Mike Dowling's well-meaning awkwardness as the social worker – no caricature here – and the unnerving accuracy of Linus Roche's jerking, yelling protagonist. "When you've got a handicapped child the whole family's handicapped" is a grim message when the suffering is portrayed as useless.

Martin Hoyle

FINANCIAL TIMES

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Monday August 15 1988

Fog over the Atlantic

RECENT exchanges on trade policy between the US and the European Community have resounded to the noise of pots calling kettles black, as each has competed to accuse the other of veering towards protectionism. The shrill rhetoric is partly tactical manoeuvring, but it also reflects dangerous mutual uncertainty about the other side's ultimate intentions.

Europe's biggest fears about the new US trade bill are less about its specific provisions than about how a future President might choose – or be obliged – to apply them. The Americans are worried that, as fast as the EC dismantles its internal trade barriers, it will raise external ones.

Much of the onus for setting matters straight falls on the EC, which is still far from deciding on its trade policy after 1992. The policy vacuum has encouraged other countries to suspect the worst. Their suspicions have been fuelled by loose talk from Brussels about exacting sectoral "reciprocity" from the EC's trading partners as the price for participating in the single market.

The confusion has arisen partly because the EC's own members are divided. There are pressures in many industries and some national capitals, notably Paris, to turn the single market into a bulwark against the rest of the world. Even in some ostensibly more liberal countries, opinion is split. The UK, for instance, opposes "reciprocity" in banking at the EC level but defends it as a national policy, while in West Germany parts of the car industry now seem ready to go along with tighter Community curbs on Japanese car imports.

Problematic issues

Many issues ahead are also genuinely problematic. In cars and textiles, EC imports of which are currently governed by individual country limits, a single market cannot be achieved without new external trade arrangements. Plans to liberalise public procurement face even more complex challenges in which international reciprocity is likely to loom large.

The EC needs rapidly to clarify its own thinking on how to handle these questions. It also needs to establish coherent working principles for its future trade relations with the rest of the world. As it does so, it is to be hoped that it will reach some conclusions which will restrain its protectionist instincts.

One should be that using the single market as a bludgeon to extract concessions from other countries could seriously weaken the world trading system. If there is any case at all for "reciprocity", it should be argued in the General Agreement on Tariffs and Trade, not imposed bilaterally. Another is that it is against the EC's own interests unduly to antagonise the US, which accounts for *more than a fifth of its exports* to the rest of the world and some $160bn of EC direct investments.

Exaggerated fears

US fears on this score may, in any case, be exaggerated. If a "fortress Europe" is under construction, the ramparts are likely to be built much higher to the east than to the west. The thrust of tougher EC trade actions, notably in the field of dumping, has been directed overwhelmingly at Japan and east Asia, which many European industries fear will pose a much fiercer competitive threat than US companies after 1992.

Indeed, American companies such as Ford and General Motors, which have extensive operations in Europe, have openly urged the EC to keep up the pressure on Japan over its exports and local investments. For them, Far Eastern competition appears a much keener cause for concern than any risk that the Community might adopt an anti-American trade stance.

The central point, however, is that, as the two largest international trade blocs, the US and EC set standards for the rest of the world. Now that the American trade bill has been passed by Congress the Community is under an even greater obligation to act responsibly by eschewing protectionism. Failure to do so could not only jeopardise the Gatt Uruguay round, but set the entire world trading system on a downward slide.

Tighter rules for British Gas

THE FORTHCOMING report by the Monopolies Commission on British Gas should give the Thatcher Government a spur to correct several important mistakes which it made when the corporation was privatised a year and a half ago.

Many critics at that time argued that ministers gave inadequate thought to ways of promoting competition and to the provision of thorough and effective regulation where this was not possible.

The licence which allows British Gas to operate as a monopoly under the Gas Act reflected the company's claim that in the industrial sector regulation was unnecessary because of competition from other fuels. Yet within a few months of its flotation the corporation had joined battle with one of its major customers, Sheffield Forgemasters, which did not have an alternative supply of energy and alleged that it was the victim of discriminatory pricing.

Market power

The Office of Fair Trading judged that the case raised important enough general issues to be referred to the Monopolies Commission. The obvious question raised by the reference was whether British Gas was abusing its market *power in the industrial market* – or in a part of it – to make monopoly profits. This would have been easy to answer if the company had been required to keep separate accounts for the regulated and unregulated parts of its gas business. However, Condition 2 of its licence permitted the company to aggregate profits from its captive domestic customers with those from the industrial market.

This was unsatisfactory even on the assumption that competitive disciplines in the industrial sector were adequate. Now it appears that separate accounts are needed just to test the assumption of competitiveness. After some resistance British Gas is now providing data to the Office of Gas Supply (Ofgas) from which this separate allocation of profits can be calculated.

The more important moderating force, however, should be competition. One proposal put to the commission deserves support. This would require some 10 to 15 per cent of all gas from new North Sea developments to be sold to a purchaser other than British Gas. At present, some oil companies are reluctant to withhold some *of their gas for fear of commercial* retaliation by such a dominant purchaser. A legal encouragement to sell direct to other customers might allow some competitive bidding and perhaps even a rudimentary spot market.

Secretive attitude

The emergence of competition would also be helped by regulations which obliged British Gas to publish a fairly detailed schedule of prices for industry. Its objection that this would give competitors an unfair advantage should not be heeded. Transparent pricing is perhaps the most important characteristic of efficient markets. So a little unfairness may be essential to nurture a seedling under the spreading branches of a dominant supplier. British Gas's secretive attitude to pricing in the industrial market is not in the public interest.

The company should be allowed to charge what it likes only where a credible chance of competition from other fuel suppliers can be demonstrated. For several years at least this will require not only open pricing, but general oversight by the director of Ofgas. A revised licence should give him powers to intervene and if necessary to set price guidelines in the event of disputes. The detailed financial and operating figures which he is now collecting should allow him to devise a fair yardstick for such cases.

The director of Ofgas must not become over-intrusive in British Gas's commercial strategy. However, it was naive to think he could be an effective referee under rules which excluded half the playing field. Unless regulators can command complete data, sophisticated analysis and fair powers of discretion, a big monopoly will soon run rings round them. This is relevant not just to British Gas, but even more to the framing of regulations for the electricity and water industries.

Stewart Fleming reports on the campaign prospects of Vice President George Bush as the Republican convention opens in New Orleans

Leaving a footprint in the sand

New Orleans, the "Queen City" of a state whose exotic civic culture has produced such extravagant populist politicians as Governor Huey Long, the "Louisiana Kingfish" assassinated in 1935, will have to settle this week for plainer politics – a Republican National Convention which will choose as the party's presidential candidate George Herbert Walker Bush, a privileged New England Yankee without a populist bone in his body.

So concerned are Mr Bush's political advisers about their candidate's lack of pizzazz that they have delayed the announcement of his vice-presidential running mate until this week to provide the television networks with a bit of suspense.

They are also making sure that in New Orleans Mr Bush will not have to labour under the shadow of the larger than life leader he is trying to replace, President Ronald Reagan. Mr Reagan will only meet his Vice President for a few moments when their paths cross tomorrow at the New Orleans airport as the President leaves the city and Mr Bush arrives.

As the nominating convention opens today Republicans, and Mr Bush, may be feeling a little bit happier than they were three weeks ago after they had watched the Vice President's rival Governor Michael Dukakis of Massachusetts emerge *triumphant from the Democrats'* convention in Atlanta.

Mr Bush's speechwriters and advisers are confident that they can contrive a similarly impressive spectacle this week in New Orleans. Their candidate seems to have been gaining in self confidence and has begun to chip away at the impressive 17 point lead in the polls which Mr Dukakis built up by the end of his convention.

A successful televised convention normally gives a candidate a boost in popularity. So if his convention managers achieve their aim, Mr Bush will go into the campaign in September neck and neck with Mr Dukakis, a status even his own staff were not expecting to achieve so early.

None the less, even if this week's convention does go well, a nagging uncertainty hangs over the Bush campaign. Do the past couple of weeks, during which Mr Dukakis has been forced on to the defensive, represent a turning point for Mr Bush – the beginnings of a sustained comeback? Or will the recovery of the recent past, and the triumphal moments in New Orleans this week, prove to be merely a prelude to new round of public questioning?

The depth of the doubts on this issue, even amongst Mr Bush's supporters, is evident from the volume of gratuitous political advice he is getting from members of his own party. Indeed, some of his supposed political allies are willing to be quoted in public voicing judgments which, at this late stage, can do nothing to help his cause.

Since the low point at the beginning of August, a number of things have gone right for Mr Bush. One of the most significant may be the more active role Mr James Baker, the US Treasury Secretary has been playing in the campaign, culminating in the announcement two weeks ago that Mr Baker would shortly quit the treasury to become chairman of the campaign.

Mr Baker, who ran President Reagan's election campaign in 1984 and President Gerald Ford's in 1976, is recognised as one of Washington's shrewdest political strategists. His arrival at campaign headquarters should add strategic vision, quell internal wrangling and ensure that the campaign is quicker on its feet.

Perhaps most important is the contribution Mr Baker may be making to Mr Bush's self-confidence. The Vice President is a man, it seems, who needs the security of close personal friendships such as those with Mr Baker and his successor at the treasury Mr Nicholas Brady.

Mr Baker is one of several friends and advisers to whom Mr Bush has been close for thirty years or so. He shrewdly took Mr Bush off to the wilderness of Wyoming on a fishing trip last month, ensuring that he was well away from the media during a Democratic convention which was devoted in large part to ridiculing and undermining him. And he is close enough to Mr Bush to give him the frank advice a presidential candidate sometimes needs.

In the past few weeks, the Bush campaign has sharpened its attack on Mr Dukakis, sought to focus attention more effectively on issues which redound to Mr Bush's advantage and persuaded Mr Reagan to play a much more active role in pursuit of a Republican victory in November.

The most remarkable sign of the Bush campaign's determination to exploit to the full whatever weaknesses it could find in Mr Dukakis's armour came with the controversy over his health two weeks ago. In the view of the Republican political analyst Kevin Phillips, this was the most effective (if, to other observers, the least attractive) of the campaign's recent efforts.

Mr Dukakis initially refused to release medical records in order to quiet speculation that he had been treated for depression several years ago. Mr Bush cautiously fanned the flames of controversy by putting out public statements testifying to his own rude health. Mr Reagan, perhaps stung by an earlier comment by Mr Dukakis (the Governor remarked about his political opponents that "a dead fish begins rotting from the head"), referred to Mr Dukakis publicly as "an invalid".

The President's remark ensured wider publicity for the speculation about Mr Dukakis's health, and provoked him into reinforcing the categorical denials that he had been treated for depression by releasing a three page statement from his doctor listing the ailments, all of them minor, that he has suffered over the years. Mr Phillips notes that the recent polls showing Mr Dukakis's lead over Mr Bush had shrunk to only 7-10 points were taken just after the controversy blew up; he maintains that it certainly damaged Mr Dukakis.

Mr Reagan has been more helpful to the Bush campaign in a variety of other ways. His veto of the defence budget authorisation bill was designed to help Mr Bush focus attention on defence and foreign policy issues, capitalising on issues which are seen to be areas of relative weak*ness for the Democratic Party and for* Mr Dukakis.

Similarly the President's decision to sacrifice his free market principles and not veto legislation requiring companies to give 60 days notice of factory closings was designed to help Mr Bush. It was aimed at blue collar workers, who could be vital swing voters in November but who appear to be stampeding back to the Democratic Party now that they can no longer vote for President Reagan.

Why is Mr Bush failing to win their support? One answer is that, as history proves, the vice presidency is one of the weakest platforms from which to run for the White House. Mr Bush, polls show, does not get the credit for the successes of the Reagan Administration. Indeed some of its successes, *détente* with Moscow for example, have paradoxically made the public less concerned about a range of foreign policy issues on which a Republican candidate might capitalise.

Mr Bush gets no credit for the Administration's successes, but the failures stick to him as well as to the President

Others, the prosperity of the Reagan era for example, are associated in the public mind primarily with the President, not with his self effacing deputy.

The failures of the Reagan presidency, on the other, hand do seem to stick to Mr Bush as well as Mr Reagan. A recent Wall Street Journal/NBC News poll, for example, found that a majority of voters think he was "very involved" in the Iran-Contra arms for hostages scandal.

For several weeks however, the Vice President has been cautiously distancing himself from some Reagan Administration policies. To shore up conservative support, he is, for example, running to the right of the President on relations with Moscow, saying the cold war is not over.

In some respects, the Reagan legacy is a constraint on both candidates. Mr Bush must seek, of course, to escape the Reagan shadow and define his own political identity and agenda by responding to the public desire for change.

But he is also, like Mr Dukakis, constrained by the huge budget deficits. The public seems to want *its* political leaders to tackle social issues, such as the need to improve education standards. But when it comes to proposing new programmes to which address these needs, the budget hampers both candidates.

Mr Bush also leaves himself open to charges of pandering to interest groups when he launches initiatives – such as his proposal for a $2.2 billion day care tax credit – which are seen as designed in part to close the "gender gap", the overwhelming preference of women voters for his opponent.

Mr Dukakis has an advantage in that, as the representative of the out party, his candidacy is inherently a call for change. Mr Bush, by contrast, must be more specific about where he sees the need for change, because his candidacy is founded on a continuation of the peace and prosperity of the Reagan era.

These cross-currents, as well as the probability that the election will be perilously close, make his choice of a vice-presidential running mate a particularly difficult one. He must decide whether his candidate should help him appeal to a region of the country or to a particular voting group. At the same time, the selection will be a factor in defining Mr Bush's own fuzzy political identity.

Conservatives are baying for him to put a right winger on the ticket, Rep Jack Kemp or Mrs Jeane Kirkpatrick, Mr Reagan's former Ambassador to the United Nations. He is also being told he must balance his privileged background (not since the beginning of the century has an east-coast establishment Republican been elected President) and appeal to working class "Reagan Democrats" by picking an ethnic politician such as New Mexico's Senator Pete Domenici, a Catholic.

Others say Senator Bob Dole, his bitter rival for the Republican nomination, would add "stature" to the ticket and yet others say the choice of Gen Colin Powell, the first black to hold the position of National Security Adviser, would give the Bush campaign a unique and exciting character.

Character, identity, and image: these are the words which crop up incessantly in discussions about Mr Bush's candidacy. Many find it odd that a man whose opponents testify to his integrity and physical courage – he nearly died when, as the navy's youngest bomber pilot, he was shot down in in 1944 over the Pacific – is unable to communicate the strength which led him into battle and enabled him to survive.

It is partly his mannerisms, his tendency to speak in jagged, at times muddled, sentences, and his efforts to compensate for these weaknesses in a way which often appears forced and anxious, which *have contributed to* his now all too public "image problem."

The constant barrage of press criticism has not helped. The last week for example, has seen an inordinately long and unbalanced series in the Washington Post, presenting him as a man lacking deep convictions, who last won elective office in 1968 and who has advanced since largely by toadying to the powerful.

The picture is one-sided. He has taken strong and principled positions – on civil rights issues for example – and people who have worked closely with him vigorously deny that he is indecisive or weak and praise his decency and fairness. Even balanced assessments of his political career have found it hard, however, to come up with examples of his leaving more than a *shallow footprint* in the sand.

One of his top advisers pointed out recently that Mr Bush has the advantage of not having to run against a charismatic rival. But the adviser conceded that if Mr Bush fails to define his political persona more clearly at the convention and in the weeks immediately after it, his campaign will be in trouble.

Correction: In Saturday's issue, as a result of transmission errors, an article on the Kennedy Space Centre overstated the number of visitors in a year. The correct figure is 2.5m. The number has also been climbing steadily over the past 15 years (not 50 as stated).

OBSERVER

Sale at a discount

■ The City may soon learn what value is attached to being a member of the discount market these days.

Citibank is sounding out possible buyers for Seccombe Marshall & Campion, the small discount house which it bought in 1985 to boost its place in the sterling money markets. After Citibank shut down its gilts business in July, the logic for keeping Seccombe has weakened, though Citi won't officially confirm that it's for sale.

But with the Bank of England proposing to open up the discount market to new members, that once privileged enclave is under threat. "Nobody makes good money in this business" grumbles one of its members.

The big houses like Gerrard, Union and Caters are all diversifying, and few new entrants are expected. The most widely canvassed names are Midland, Morgan Grenfell and Warburg. Barclays, *once a candidate*, appears to have pulled back.

The most likely purchasers might be the Japanese who are busy digging themselves into the sterling markets. But the word is that the Bank will not allow a Japanese institution to buy a discount house so long as the UK's long-running reciprocity dispute with Tokyo rumbles on.

The Bank declines to comment.

Agee again

■ William Agee has returned home to Idaho and to the corporate big leagues five years after he lost one of the most gripping takeover battles in Wall Street history. He has shouldered the chairmanship of Boise-based Morrison Knudsen, a big construction and engineering company staggering under losses on real estate and shipbuilding.

Agee was rarely out of the headlines in the early 1980s as head of Bendix, the aerospace and vehicle components group. His attempt to take over Martin Marietta, a defence contractor, spawned the legendary "Pac-Man" defence in which each accumulated more than half of the other's shares. Ultimately, Allied Signal bought Bendix and 39 per cent of Martin Marietta - and Agee lost his job.

He then went into the venture capital business with Mary Cunningham whom he married after he left Bendix. Though they denied any romantic involvement as Bendix co-workers, her rapid rise as a young, beautiful corporate *strategist attracted national* attention which forced her out of the company.

Agee was born and bred in Idaho and Harry Morrison helped his father buy a small local steel company. A director of Morrison Knudsen for 11 of the past 15 years, he says he relishes the task of restoring its fortunes.

He will run it just as he did both Bendix and his venture capital firm - with "short lines of communication, candour and by developing a sense of community". His wife has taken over their venture capital firm but "she has been kind enough to keep me on as a token treasurer".

Gold barred

■ I had hoped to bring you a small scoop today - a description of the Bank of England's gold vaults. The UK has $6.5bn of gold reserves, most of which resides deep below Threadneedle Street. But after mulling my request for several days last week, the Bank decided that even Observer represented an unacceptable security risk. "Most of the Bank's own staff don't even get in there," explained a spokesman.

"He's the film reviewer for the Church Times."

The Bank's cageyness contrasts strongly with the attitude of the New York Fed whose vaults contain considerably more gold than Fort Knox. If you ask them nicely, they will show you riches beyond your dreams. The Fed reasons, rather sensibly, that a 400oz gold ingot is not something that a casual thief can slip into his pocket.

Brussels Bang

■ An archaeological site outside the imposing headquarters of the Brussels Stock Exchange has been inspiring digs of a different kind. Suggestions that fossilised clients, lost share certificates, or brokers vainly trying to sell shares in Societe Generale de Belgique may soon be unearthed are among the caustic comments heard recently on the trading floor.

Such flashes of black humour are appropriate given that Belgium's Finance Minister Mr Philippe Maystadt has signalled his clear wish to subject the Bourse to the Belgian equivalent of the Big Bang.

The Belgian market is something of a relic itself. Official trading takes place for only two hours each day under the primitive "open outcry" system whereby members write down their requirements on bits of paper, and bids and offers are matched. A lot of unrecorded business is also done outside the Bourse by brokers and bankers informally marrying the needs of their clients.

Plans by the Stock Exchange authorities for a centralised computer trading system are well advanced but the details of how this would work is just one issue which divides the two key figures who will oversee the changes: Mr Jean Peterbroeck, chairman of the Stock Exchange and head of the leading broking firm which bears his name, and Mr Leo Goldschmidt, his opposite number at the Belgian Bankers Association and chairman of the country's leading independent investment bank Bank DeGroof.

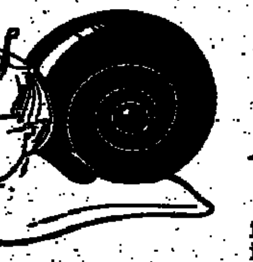
Although Mr Maystadt thinks Belgium can learn a lot from the changes made in London and Paris, his task is not easy. The Ministry's previous troubleshooter on an offi*cial working party had to with*draw the first draft of his report because it was rejected by one side to the negotiations. When he produced a second draft, it was equally promptly hit on the head by the other side. But if Belgian politics is anything to go by, he must be used to such wrangles.

Sound of music

■ France continues to be frustrated in its efforts to encourage the use of French. At a recent conference hosted by WHO, Unicef and the World Bank at Talloires in France, nearly all the main speakers, including some Frenchmen, delivered their speeches in *English*. This prompted one exasperated French delegate to complain that Francophones were being ignored and that the event had been taken over by Saxophones.

David Lascelles

David Marsh continues his series on the sluggishness of West Germany's economy



A consensus in search of a crisis

Asked at a press conference last month what would happen in West Germany if the Federal Government in Bonn tried to enact economic policies of the type implemented by Mrs Margaret Thatcher in the UK, Chancellor Helmut Kohl launched into one of his favourite long-winded anecdotes.

During the Queen's state visit to Germany in 1977, the Chancellor told his questioner, the Duke of Edinburgh had been surprised to learn that Mr Kohl's conservatives were in Opposition in spite of winning 48.6 per cent of the votes in the 1976 election. "That is the decisive difference. According to the British system, I would have had a majority in parliament. That has something to do with the question. It has nothing to do with courage," Mr Kohl said.

The reply underlines one fundamental obstacle to a Thatcher-style revolution in West Germany. The federal republic's system of proportional representation has ensured that coalitions have ruled in Bonn for all but four years since the state was founded in 1949. Especially under Chancellor Kohl, this has not made for decisive government.

Mrs Thatcher has ruled with large parliamentary majorities despite the Conservatives' average score in the three UK general elections since 1979 of only 42.8 per cent of the popular vote.

The CDU together with its Bavarian sister party, the Christian Social Union (CSU) has won an average 48.5 per cent of the vote in the last two general elections. But to maintain a parliamentary majority, the two conservative parties can rule only at the expense of complicated political bargaining with each other and with the junior coalition partner, the Free Democratic Party (FDP).

Additional complications are thrown up by West German federalism, giving great importance to frequent state (Land) elections and to compromise arrangements with the Bundesrat, the states' parliamentary chamber.

The political checks and balances form part of a system of decentralised decision-making running through the whole of West German society, involving a large and complex cast of industrial and business associations, trade unions and community groups. The roots in some cases go back through centuries of Germany's fragmented history.

Despite the acknowledged need for economic and social reforms to cope with the challenges of the 1990s, the very success of the system since the war has created built-in resistance to change.

All this – together with the fact that the problems of the West German economy are not nearly as dire as those confronting Britain during the 1970s – combines to make West German-style "Thatcherism" impossible as well as inappropriate.

"Proportional representation means that marginal groups have a tremendous amount of influence," says Professor Kurt Biedenkopf, formerly general secretary of the CDU. As a deputy in the Bundestag, he now carries on a lonely intellectual crusade against Mr Kohl.

West German politicians, Mr Biedenkopf points out, have become a specific breed depending on politics not just for prestige and influence but also for income. "They are not very risk-happy, they are very careful." Taking on vested interests is considered politically impossible – "They don't have the guts to do it."

"The ossification which took Britain 300 years to acquire has happened here in 30 years," says Mr Josef Joffe, foreign editor of the Süddeutsche Zeitung, the liberal Munich-based daily newspaper.

"Mrs Thatcher revived the class struggle. She said, 'I'm going to take on the miners. I'm going to break them.' That is as alien to German thinking as Catholics questioning the Immaculate Conception." Mr Joffe classifies the German consensus system as "a society which moves at the lowest common denominator. Everyone has veto power."

Mr Kohl's own reticence about tackling interest groups contrasts with the market-orientated economics put into action after the war by the Christian Democrats under Mr Ludwig Erhard, West Germany's first Economics Minister.

Politicians like Mr Kohl still pay lip service to Mr Erhard's reforming zeal. But the Erhard drive was only practicable at a time of national effort to rebuild the war-shattered country. It is a period which today's comfortable Germans, for obvious reasons, do not want to repeat.

Mr Otto Schlecht, the veteran state secretary in the Bonn Economics Ministry, who used to work with Erhard during the 1950s, says such a man might well fall in today's federal republic.

During the Erhard era, he says, in the fledgling years of the European Common Market, the federal republic used to be suspicious of ideas from Brussels because they encouraged bureaucratic "planification." Now, he says ironically, Brussels provides a stimulus for liberalisation – through the 1992 internal market programme – which would not otherwise come from within West Germany.

Another change from the Erhard period is the increased complexity of party politicking. Mr Johannes Rau, the Social Democratic Prime Minister of North Rhine Westphalia, who ran unsuccessfully for the chancellorship in the 1987 general election, points out that the CDU is a "holding company" encompassing a wide spectrum from right to centre-left. "They are no Tory party," he says.

Because of the need to mollify all sections of his own party, Mr Kohl spent a large portion of time in party caucuses this summer to try to win support for the Government's 1990 income tax cuts.

Last month the package was finally pushed through the Bundesrat, which has a veto over tax legislation, 17 months after it was decided on by the Government. To buy approval in the Bundesrat, Mr Kohl was forced to make concessions to northern CDU states asking for more regional aid. This additional funding will drive up the budget deficit next year, forcing the Finance Ministry to introduce extra consumer tax increases in 1989. And this will partly offset the income tax cuts planned for 1990.

Mr Karl Hohmann, a former close aide to Erhard, who is now chairman of the Ludwig Erhard Foundation in Bonn which tries to keep the great man's thoughts alive, points out how such wrangling has grown. Mr Erhard, he says a trifle wistfully, never used to set foot in CDU party headquarters.

The bickering over the 1990 tax cuts has eroded business support for the Government. This has been added to more general dissatisfaction over the coalition's failure to bring in the free market policies held out when Chancellor Kohl took over from Mr Helmut Schmidt and the Social Democratic Party (SPD) in October 1982.

However, this discontent with politicians has had a silver lining. In some areas of industry, it has prompted greater self-reliance, making some industrialists even talk optimistically of a surge of entrepreneurialism among younger people.

Mr Klaus Luft, the chairman of the computer group, Nixdorf, says pessimism is often overdone. He points to progress made in improving flows of venture capital – even though the federal republic still lags behind the UK and France in this respect – and says the Government is now "really trying" to reform the telecommunications, tax and health systems. "More people now dream about becoming millionaires. There is an entrepreneurial younger Germany."

Significantly, some SPD industrialists also voice worries about the consensus system.

Mr Ernst Pieper, the chairman of the state-owned Salzgitter steel group, is a member of the SPD industrialists' group set up to advise the party on future strategy. He says of the past: "The price paid for avoiding strikes was too high."

Mr Pieper says that West Germany's system of worker co-determination, which puts employee representatives on to supervisory boards, makes "nasty decisions" difficult to take.

Mr Detlev Rohwedder, state secretary in the Economics Ministry under the previous SPD government and now chairman of Hoesch, the steel company, says that politicians are reluctant to ask for sacrifices. "We will undoubtedly see a much faster export of industrial capital."

Professor Ulrich Steger, the former SPD Finance Minister in the Hesse state government, who is now at the European Business School near Wiesbaden, points out that labour rigidity is a problem which has its roots as much with employers as workers. "Employers are tying their workers to them with gold watches, special pension arrangements, capital participation."

But he points out that the "corporate social system" is also one of Germany's strengths. "You cannot make a Mercedes Benz or a sophisticated machine tool with a vagrant workforce."

Highly developed job training is also a source of immobility. "Companies have all invested heavily in their people. We have such a well-trained labour force that companies won't let them go." says Professor Steger.

One complaint frequently heard from industrialists and bankers is that communications with the Government function very badly. Mr Werner Dieter, chairman of the steel and engineering group Mannesmann, says: "I would not complain too much about the Kohl Government" which, he says, "understands the problems of industry." But he attacks high corporate taxes, particularly the Government's "stupid" decision to double tax on the sale of small business. "Not even the Socialists tried to do this."

There is widespread agreement that the SPD is not currently a viable alternative.

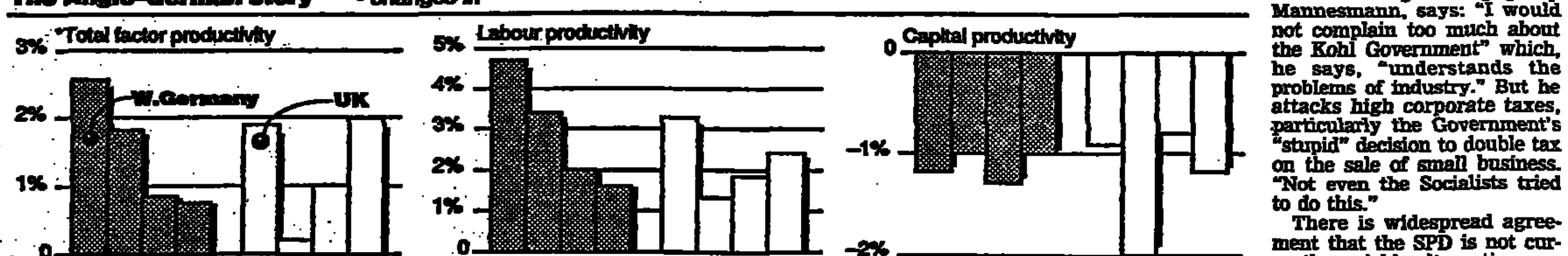
Mr Ronaldo Schmitz, finance director at the chemicals giant BASF, says that West Germany's lack of a proper capital has added to the difficulties. "Bonn is a purely political capital. It is not a place for dialogue with industry. Industry meets politics more or less only when it is asking for favours."

Since the majority believes that the structure of the German consensus system is basically sound, the ground for a Thatcher revolution in West Germany is as infertile as ever. Mr Rudolf von Bennigsen-Foerder, chairman of Veba, the energy conglomerate, says simply: "German politics does not have the strength of Mrs Thatcher."

Radical reforms in West Germany of the type seen at the end of the 1940s and in the 1950s seem only possible at a time of crisis. And of course the very workings of the consensus system tend to smother any sense that a crisis could be on the way.

The first article in this series appeared on August 10. Further articles will appear over the next few weeks.

The Anglo-German story - changes in



*Total gross value added / total factor inputs. Source: OECD

LOMBARD

Interest rate illusions

By Clive Wolman

THE CLAIM that raising interest rates reduces inflationary pressures has so often been repeated by the Thatcher Government, City economists and in macro-economic models over the last few weeks that the public may be forgiven for considering it a self-evident truth.

The classical argument for the 3.5 percentage point increase in rates since May had the attraction of simplicity: savers would have an additional reason to hold on to their money, while would-be borrowers would think twice about their costs. The trouble has been the accumulating evidence that individuals and manufacturing (but not property) companies are insensitive to interest rates when considering how much to save, borrow or invest. The more aggressive credit providers have even found that higher rates allow them to exploit new ways of selling credit and overcoming the institutional obstacles to its provision.

Supporters of conventional interest rate wisdom have therefore resorted to a variety of more sophisticated reasons, which get tied up in their own subtleties. Their argument – that higher interest rates mean general belt-tightening – applies only if the borrowers tighten their belts more than the savers (now benefiting from the higher interest rates) loosen theirs.

Most macro-economic models assume they do, but on evidence derived mainly from a period when savers, concentrated in the 50s and 60s age-group, had to use every opportunity to re-build their inflation-ravaged assets. Today's 50-70 year-olds, enjoying six years of high real interest rates, a booming stock market and over-funded pension schemes, are more likely to turn additional interest income into better holidays and cars.

According to Mr Tim Congdon, of Shearson Lehman Securities, the most important effect of a rise in interest rates is the way it makes people feel less well-off and less inclined to spend. All capital assets – real property, bonds and shares – are based ultimately on the future stream of rents or earnings. When interest rates rise, so does the discount rate by which future earnings are translated into (lower) present values.

But because houses and shares are long-term assets, their yields must be discounted using long-term interest rates. The Government's interest rate moves this year (down, and then up again) have had almost no effect on long-term rates, now well below short-term ones. As in 1985, home buyers are unlikely to pay much attention to short-term mortgage rates; and lenders become more flexible in allowing customers to defer payments when rates rise.

But even if interest rate rises were to push down house prices, it is not clear why this should lead to a general fall in spending. Home-owners who plan to sell to move to smaller houses or cheaper regions will certainly feel worse off. On the other hand, youngsters struggling to get on to the housing ladder – and owners planning to trade up – should feel better off as prices move back into their range and they have less need to skimp and save.

The argument can be generalised to all assets. If investors are to receive higher long term yields, future purchasers of shares and bonds should expect to be better off – and feel no need to cut spending now.

The other main rationale for favouring interest rates is the disinflationary effect it will have through boosting the exchange rate. But sterling forward rates indicate unequivocally the (rational) expectation that sterling will gradually fall back again, and short-term deviations in exchange rates are exactly what exporters and importers have increasingly been hedging themselves against. This, together with the scope for building up or running down stocks, will soften or even neutralise any disinflationary effect from a temporarily higher exchange rate.

The underlying problem is that sterling, like other currencies, continues to enjoy a government backed monopoly in its home country, while the factors determining its supply and demand have become too complex to control.

LETTERS

Problems in the Pact

From Mr Jonathan Gordon-Till.

Sir, Having been deported from Romania in 1984, I was interested to read "A Romanian threat to the Warsaw Pact" (9 August). There has been much recent comment on President Nicolae Ceausescu's megalomaniac fantasy.

But your assertion that Romania poses an embarrassment to other eastern European states may not be the predicament you maintain. Despite the recent failure of the Conference on Security and Co-operation in Europe to agree on minority rights and freedom of travel (because of Romania's intransigence), eastern European states need little persuasion to hide internal social disorder behind Ceausescu's intolerable autocracy.

Jonathan Gordon-Till,
15 Oakthorpe Road,
Summertown,
Oxford.

Spectacle of a free market

From Mr Clive Stone.

Sir, Harmonisation of the principles of tax within the European Community (EC) has to be accepted, but there are strong arguments for leaving individual governments to determine their own policy on levels of tax. VAT is a good example, following the recent EC Court decision to impose VAT on spectacles in the UK, against the British Government's wishes.

Each country, having accepted the discipline of harmonisation, must surely be free to examine the negative effects on its "economy and competitiveness" within the European market when deciding its VAT rate.

It must be free to balance this decision against the overall effect on its own internal economy, social policies and principles, and take this into account when determining its rate of VAT. As long as VAT (or other means) is not used to restrict imports or to disadvantage foreign products/producers, finance ministers should have complete freedom within the Community to fix the levels of tax.

Spectacles are a good example, because they are an integral part of our social system (about 30 per cent supplied directly or indirectly under the National Health Service) and create a distortion of price (upwards, because of shortfall) in the 70 per cent private sector of the market.

Inter-country purchase comparisons are, therefore, distorted. However, the chance of people from different countries being dissuaded or encouraged by price to shop for their spectacles in other countries is small. A free choice market will exist. If a government considered that its market was in jeopardy, it would act accordingly by varying its level of tax – and should be free to do so.

Clive G. Stone,
Dollond and Aitchison Group,
1323 Coventry Road,
Yardley,
Birmingham.

Ring in the new

From Mr Wally Olins.

Sir, I write both as a design consultant – a breed which Colin Amery (August 8) so affects to despise – and as a member of the public who from time to time uses call boxes.

Mr Amery claims that the Giles Gilbert Scott telephone box was "a very architectural object" – whatever that means. It was also freezing cold in winter, boiling hot in summer, and a public midden throughout the year.

Whatever the merits or otherwise of the new boxes by British Telecom and Mercury, none can be so absurdly impractical as the old red boxes, whose only virtue is that they have become quaint period pieces over the 60 years they have been in use. Let the Americans, Japanese, or anybody who feels like it collect them – as far as I am concerned, the sooner the better.

Wally Olins,
22 Dukes Road, WC1

Industry's flexible friends

From Dr Colin Mason.

Sir, It is appropriate that your report (August 9) on Midland Bank's decision to provide in-house nursery facilities for the children of its staff appeared immediately above a report of a study claiming that the use of flexible working in British industry is widespread.

One of the important characteristics of the "flexible firm" is that it subcontracts out many of its service requirements (for example, cleaning, catering, gardening) to specialist providers. If other companies follow the Midland Bank example, will this stimulate the emergence of specialist providers of corporate child-care services and, in turn, encourage companies also to subcontract out this activity to specialist providers?

Colin Mason,
Department of Geography,
University of Southampton,

Ring of truth

From Mr Michael Varcoe-Cocks.

Sir, David Lascelles, writing in your Observer column (August 11), describes Corney & Barrow's restaurant in the City of London as "an up-market establishment – silver napkin rings, Limoges porcelain, imaginative cuisine."

High quality porcelain and cuisine are one thing, but any restaurant that uses napkin rings (silver or not) cannot expect to be taken seriously, even with a "special City lunch at £19.95 a head" (without pudding/sweet course – not "dessert").

We should note, Sir, that napkin rings were used only for wrapping used napkins for repeated use (by the same person) in modest homes and (many years ago) in *very* modest restaurants.

Michael Varcoe-Cocks,
17a Nevern Mansions,
Warwick Road, SW5

Accountancy training should be expanding, not contracting

From Mr J. Claret.

Sir, Accountants as well as academics have expressed concern over teaching accountancy in higher education establishments. This came to a head recently when the University Grants Committee (UGC) proposed that the number of available places on accountancy courses should be frozen.

This seems self-defeating. Demand for this directly vocational qualification is unprecedentedly high; surely it should be provided.

The principal difficulty is generally acknowledged to be uncompetitive salaries and the consequent problem of attracting high-calibre teaching staff to the academic world. Salaries on offer in industry, commerce or public practice, even for newly-qualified accountants, far exceed those on offer in education.

This has two principal effects: first, that academics are constrained in their research activities, and thus their contribution to the future of the profession is reduced; second, that the pressures of student numbers adversely affect the quality of tuition.

Such a situation is in nobody's interests. Provision of accounting training should be expanding, not contracting.

At a time when management is putting greater emphasis on qualifications and indeed training generally; when the government is encouraging industry to establish closer links and become increasingly involved in education; when companies themselves are demanding education geared more closely to business strategies and corporate objectives, why cannot a solution to this problem be found?

Is it not time for industry, and the accountancy profession generally, to reappraise its role in the education process, and become more involved in the debate about allocating resources?

This institute has for a long time been concerned to break down the barriers between industry and education and to provide a qualification tailored to the needs of employers. It has gained considerable experience in this area – experience and ideas that we are only too willing to share and discuss.

It is the future of the profession, and corporate success, that is at stake. Their effective realisation is the responsibility of all involved.

J. Claret,
The Chartered Institute of Management Accountants,
63 Portland Place, W1

FINANCIAL TIMES
Monday August 15 1988

Deborah Hargreaves on Wall Street

Futures pits braced for new indices

THE final quarter of the year has always been a time of feverish activity in the futures industry, when exchanges rush to cash in on the latest lucrative trend with their version of the year's favourite product. This year it is the stock index futures market that is bracing itself for an assault from an array of new contracts.

Ironically, a welter of new index products is set to hit the futures pits at a time when the established market – still reeling from last October's stock market crash – is stuck at a trading level almost a third below its volume of recent years.

The Commodity Futures Trading Commission, the US industry's regulatory body, had held back on approval of new index contracts in the aftermath of the market debacle, when the futures market came in for some fierce criticism for its part in the collapse. But, after asking exchanges to provide more details about safeguarding their markets in a downturn, the CFTC has once more opened up its approval process and a trickle of new contracts is appearing.

But with the stock market in the doldrums – save for the jitters created by rising interest rates this week – and the existing stock index futures market already overcrowded with contracts that are strapped for volume, who wants to trade these new products?

Portfolio insurance was largely discredited in the stock market crash and stock index arbitrage is restricted on days of large stock market moves. This has depressed the industry's bellwether Standard & Poor's 500 index futures at the Chicago Mercantile Exchange to a daily volume of around 42,000 contracts last month compared with nearly 60,000 a year earlier.

Two broad-based new indices that were launched enthusiastically by the New York Futures Exchange about a year ago are languishing with no trading volume at all.

To take a cynical view of the frantic rush into index products, exchanges could have an eye on the November election that may usher in a President with more of an interventionist approach to the financial markets than the Reagan Administration. If the exchanges get their indices approved and listed now – whether they trade or not – they at least will not be precluded from the market in any future clampdown.

Of course, the exchanges themselves all like to believe they have a twist or a new angle to attract investors and many have their new indices pitched very firmly in the international arena to catch the swing towards the globalisation of investment funds.

The Coffee, Sugar and Cocoa Exchange is hoping to set off its International Market index before the end of the year, into what it sees as a unique market segment. Composed of 50 foreign equities that trade directly or as American Depositary Receipts in the US, the index, which will trade as a futures contract on the CSCE and as an option on the American Stock Exchange, is angled at fund managers who want to build a synthetic international portfolio.

More ambitiously, Chicago's two major exchanges, the Board of Trade and the Mercantile Exchange, both have applications pending to trade futures on two Japanese stock indices as part of an ongoing effort to tap into the same globalisation trend.

As the first futures contracts in the US to be cleared and settled in a foreign currency – in this case Yen – these contracts have thrown up all sorts of regulatory issues.

Closer to home, the Board of Trade has plans to launch its CBOE 250 index futures contract on the floor of the Chicago Board Options Exchange in November as part of a joint venture agreement.

At the same time, the exchanges are pondering the creation of basket-type products to make it easier for institutions to trade large blocks of contracts. Many of these ideas are still in their early stages, but the Philadelphia Stock Exchange has applied to trade Cash Index Participations, or CIPS, which will allow investors to buy or sell an index of stocks without the need to execute multiple transactions.

But as the silly season rushes into autumn, commodity traders will be returning from their boats and beach houses, to face a dazzling array of new stock index products for which there may be little demand.

Moscow says withdrawal on target

By John Lloyd in Moscow

THE WITHDRAWAL of half of the 100,000 Soviet military personnel in Afghanistan was completed yesterday, one day before the date agreed under the Geneva Accords, according to Radio Moscow.

However, Soviet and Afghan officials both say the Afghan army, now seeking to retain control of the areas which Soviet troops have left, is coming under increasing heavy pressure from rebel groups. In one of the biggest rocket attacks on the capital Kabul yet reported, five people – four women and a child – were killed and six others wounded on Saturday night. Shelling of the eastern towns of Gardez and Khost claimed a further 14 dead and 10 wounded, the Soviet newsagency Tass said last night.

Gen. Shah Nawaz Tanai, head of the Afghan armed forces, told the Soviet army paper Krasnaya Zvezda yesterday that there was a "sharpening of the political and military struggle between the national powers and the opposition forces" in the areas evacuated by the Soviet forces – including the provinces of Badakhstan, Himand, Kandahar, Kunar, Nangarhar and Paktia.

These provinces are in the south of the country, bordering Pakistan. The paper said Soviet troops had withdrawn from 25 of Afghanistan's 31 provinces. The largest contingent – of more than 20,000 – remains in the capital. The provinces still believed to contain Soviet forces are Baglan, Balkh, Herat, Kabul, Parwan, and Samangan. Five of these form a corridor north to the Soviet border, while Herat borders on both the USSR and Iran.

According to a report from Reuter in Kabul, Soviet forces had made deals with rebel groups to allow unhindered passage north for several of their units. Quoting Soviet army sources, Reuter said the order to contact the rebel groups had come from "a very high" level in Moscow.

Western officials in Kabul said that a member of the Afghan Senate had spoken of contacts between senators and the rebel groups – to "safeguard their future in case of a Mujahideen takeover".

Diplomats in Kabul described the fighting as increasingly a war between loosely allied rebel groups and a weak Government.

Meanwhile, Marshal Sergei Akhromeyev, Chief of the Soviet General Staff, has talked of "difficulties" in restructuring the armed forces. Many Soviet officers, he told Krasnaya Zvezda, had not accepted the new doctrine of a "necessary sufficiency" in the Soviet forces, by which numbers are to decline and quality to rise. "It is not easy to introduce new thinking to our lives. There is still too much centralisation and paperwork. We must introduce openness in every possible way".

The Soviet reading public was introduced yesterday to the MiG-29 fighter, believed to have been in use in the Soviet air force since 1985. This is the Soviet answer to the US F-16 and will be shown at the Farnborough Air Show in England next month.

Afghans prepare to go home

Christina Lamb tells of a dangerous repatriation

NOW that the Soviet Union seems to have kept its promise to withdraw half its troops from Afghanistan by today, the possibility of the 3m Afghan refugees in Pakistan returning home is rapidly becoming reality.

The 95 aid agencies based in Pakistan are preparing for one of the largest repatriations ever, which they see as fraught with difficulties.

Although the rebels claim to have "liberated" 80 per cent of Afghanistan, so far few of the refugees in Pakistan and Iran have returned.

Reconstruction has begun only in the Panjshir valley of northern Afghanistan. The area is free of fighting because the local rebel commander Massoud has promised the regime in Kabul that he will not attack departing troops. About 250 families a day are moving back.

Afghans look on at an air base as Soviet troops prepare to leave the country

The chief representative of the UN High Commission for Refugees in Pakistan, Mr René van Rooyen, believes that today will be a turning-point: "For there to be a harvest next year, it is vital that refugees return to plant the winter crops. The basic reason why they left Afghanistan is disappearing and they should not overstay their welcome."

However, he is reluctant to advise people to return: "So much conflicting information comes from inside Afghanistan that we have little idea what they will find."

The main uncertainty is over the number of land mines left by the departing Soviet troops. A human rights lawyer, Mr Charles Norchi, says: "the mines will make the Afghans suffer for yet another decade". Armies usually keep maps of minefields but, in this case, there has been indiscriminate laying of mines and plastic booby-traps disguised as toys.

The Mujahideen have no mine-clearing apparatus – they use either advance parties of goats or their bare hands – and border hospitals are crowded with mine victims.

Some observers say rebel leaders have deliberately exaggerated the number of mines to deter refugees from returning. Mr van Rooyen says: "It is no secret that certain political parties consider repatriation undesirable".

Every refugee had to join a political party to qualify for rations. While the refugees stay in Pakistan, the parties retain importance as the main channel for arms and aid.

Although the rebel alliance denies claims by Radio Moscow that refugees are being shot and arrested as they try to cross the border, many refugees believe they would be stopped.

Mr van Rooyen doubts that once large numbers of refugees have begun to return to Afghanistan, repatriation will be as smooth as was their absorption into Pakistan. "Ten years as refugees have had a profound impact on their psychology. Pakistan may not be the most advanced country, but it is light years ahead of Afghanistan," he said.

The social structure at home has also changed meanwhile. Many Afghans in their late teens remember little of their homeland after 10 years in camps, and have scant respect for the traditional tribal leaders.

According to the author of a recent report on post-Soviet Afghanistan, the Afghan man now is not the simple mountain dweller who has never left his valley. The writer predicts bloodshed when rebel commanders come into direct conflict with traditional leaders.

Mr van Rooyen agrees: "People who in traditional society would have been nothing have become leaders. It is a big question how they'll fit into the tribal system where allegiance was to the local *malik*."

The return also portends intensified controversy over the possible return to Afghanistan of the former king, Zahir Shah, who is supported by some rebels, bitterly opposed by others. A group of tribal leaders is setting up an office in the border town of Quetta with the stated aim of preparing for the ex-king's return.

The UNHCR has dropped its original proposal to set up feeding stations inside Afghanistan, saying "handouts do not fit Afghan culture." Under consideration instead is the transporting of wheat to towns, where it would be sold to middle-men who would take it to villages and retail it.

The UN body would use the proceeds to create work programmes to repair the infrastructure and irrigation. The money earned by the Afghans would enable them to buy more wheat.

The suggestion will need to be approved at a conference to be held next month in Islamabad. However, the UN has already set up a logistics cell to organise the transport and arranged to buy wheat from Pakistan.

The UN repatriation appeal is well short of its $1.16bn target, but Mr van Rooyen believes that once refugees start to return, money will pour in.

Sackings prompt probe into City insider trading

By **David Lascelles and Charles Hodgson** in London

LONDON'S Stock Exchange is investigating a new insider trading scandal following the dismissal of two employees at leading City merchant banks and the resignation of a third last Friday.

The three employees are alleged to have passed on or used information about Mecca Leisure's £590m takeover bid for Pleasurama before it was announced on August 4. Their departure came only two days after two employees of County NatWest WoodMac were dismissed for allegedly using inside information about Grand Metropolitan's plans to sell its Inter-Continental Hotels subsidiary.

Midland Montagu, the investment banking division of the Midland Bank Group, confirmed yesterday that "a junior member of the corporate finance staff resigned on Friday after being in breach of in-house rules." The employee has been identified as Ms Cathy Rowlands. Midland Montagu is advising Mecca in the transaction.

Lazards Investors, the fund management arm of Lazards merchant bank, also confirmed that a fund manager had been dismissed for allegedly contravening staff dealing rules. He is Mr Bill Liggins. The third person involved was employed by Morgan Grenfell Securities. Morgan Grenfell confirmed yesterday that a junior equity salesman had been dismissed. He is understood to be Mr David Gray. Evidence in the case is believed to be on tape recordings of Mr Gray's telephone conversations at Morgan Grenfell, where a record of all transactions is kept. Morgan Grenfell's compliance department told the Stock Exchange of its suspicions.

US journalist sacked, Page 2

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	29	84	Dubrovnik	S	32	90	Malta	S	35	95	Rhodes	S	29	84
Algiers	S	31	88	Edinburgh	R	17	63	Manchester	C	19	66	Rio de J'o	S	25	77
Amsterdam	C	25	77	Faro	S	26	79	Manila	C	33	91	Rome	S	34	93
Athens	S	38	100	Florence	S	34	93	Melbourne	F	17	63	Salzburg	S	28	82
Bahrain	S	37	99	Frankfurt	S	29	84	Mexico City	C	22	72	San Francisco	F	34	93
Bangkok	S	33	91	Funchal	S	24	75	Miami	R	30	86	Seoul	C	32	90
Barcelona	S	29	84	Geneva	S	27	81	Milan	S	30	86	Singapore	R	27	81
Beirut	S	33	91	Gibraltar	S	27	81	Montreal	C	33	91	Stockholm	F	20	68
Belfast	F	17	63	Glasgow	C	17	63	Moscow	C	24	75	Strasbourg	S	29	84
Belgrade	S	33	91	Guernsey	S	19	66	Munich	S	29	84	Sydney	F	17	62
Berlin	S	25	77	Helsinki	R	16	61	Nairobi	C	20	68	Taipei	R	33	91
Biarritz	C	23	73	H. Kong	R	26	79	Naples	S	32	90	Tangier	F	26	79
Bombay	F	30	86	Innsbruck	S	28	82	Nassau	C	33	91	Tel Aviv	F	31	88
Bordeaux	S	31	88	Inverness	F	16	61	New Delhi	C	31	88	Tenerife	S	27	81
Brussels	S	26	79	Islamabad	C	32	90	New York	C	35	95	Tokyo	C	31	88
Budapest	S	31	88	Istanbul	F	32	90	Nice	S	28	82	Toronto	R	29	84
B. Aires	R	14	57	Jakarta	-	—	—	Nicosia	S	38	100	Tunis	S	38	100
Cairo	S	37	99	Jersey	C	22	72	Oporto	S	20	68	Valencia	S	31	88
Cape Town	-	—	—	Jo'burg	F	21	70	Oslo	S	20	68	Venice	S	31	88
Caracas	C	26	79	Lima	F	16	61	Paris	S	29	84	Vienna	S	29	84
Casablanca	F	24	75	Lisbon	S	24	75	Peking	R	20	68	Warsaw	F	23	73
Chicago	S	33	91	London	F	21	70	Prague	S	27	81	Washington	S	26	79
Cologne	S	27	81	Los Angeles	C	27	81	Reykjavik	C	13	55	Zurich	S	27	81
Copenhagen	F	20	68	Luxembourg	S	26	79								
Corfu	S	36	97	Madrid	S	31	88								
Dallas	S	27	81	Majorca	S	31	88								
Dublin	F	18	64	Malaga	S	30	86								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Bush campaign in search of the vital spark

Continued from Page 1

New York and a dark horse, Senator Dan Quayle of Indiana.

Mr Lee Atwater, Bush campaign manager, said an announcement would be delayed until Thursday to maintain suspense and interest in the convention.

The running-mate dilemma reflects some uncertainty within the Bush campaign over future election strategy. The selection process has lent some suspense to the convention, which is being held in a city far better known for its Democratic Party lineage, going back 50 years to the demagogue and former Louisiana Governor, Huey Long.

During the Reagan years, New Orleans and the surrounding economy have suffered badly. Over-dependent on oil, the local port has suffered as a result of the Administration's deregulation of the railroad and trucking industries.

The State of Louisiana has an unemployment rate of 10.5 per cent, twice the national average and the highest in the nation.

But this week there is a mood of festivity. Delegates arriving at New Orleans airport are met by jazz bands and, when they step out into the steamy heat, they can see well-manicured city parks and streets which are being swept in the early hours of every morning. "This is our big moment for a comeback," said a shopkeeper in the new shopping mall opposite the Superdome.

Maxwell weighs anchor

Continued from Page 1

grammed with the direct lines of at least four merchant banks in New York and London. Another line connects the seaborne Mirror Group chairman to the Daily Mirror newsroom, whence Mr Maxwell boasts he can receive a copy of the front page at the same time as the paper's editor.

Macmillan, yet to respond to the Maxwell overtures, is fighting a $75-a-share bid from a group organised by Mr Robert Bass, a Texas investor. Mr Maxwell depicts MCC as a "white knight", rescuing the US publisher from a ruthless wheeler-dealer.

The publisher's defence includes a "poison pill" which would break Macmillan into two divisions, information and publishing. An appeal against a ban on the proposal starts today in the Delaware Supreme Court, but, whatever happens, the MCC bid includes a $1.1bn offer for the information portion of the publisher should its full takeover be turned down.

"If the court case goes against us I'm ready to swallow the Mediterranean," Mr Maxwell said on Saturday. Then, after a pause: "Well, I'll certainly drink a glassful."

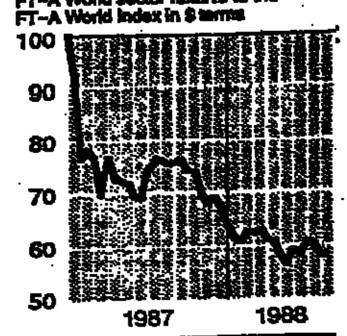
THE LEX COLUMN

Europe's slow man picks up speed

The West German equity markets have been defying economic logic for so long that investors might ask themselves whether it is not time to exploit this perversity. Almost every issue which was causing concern at the turn of the year – including the level of economic growth and the exchange rate – has since come right. But the market remains one of the worst laggards among major world markets, underperforming the FT-A World Index by 13 per cent since the beginning of the year in dollar terms, and the European index by nearly 5 per cent.

W.Germany

FT-A World sector relative to the FT-A World index in $ terms



Clearly the West German authorities overdid their gloom about the domestic economy, which is now expected to grow at 2.5 to 3 per cent this year, and virtually everyone worried too much about the D-Mark. The result was predictions of anything from a fall to only a negligible rise in corporate earnings for 1988 – forecasts which are rapidly being revised upwards following a sprinkling of excellent six-month results from the likes of Siemens and Hoechst.

More of the same should be on offer from others and if the dollar holds companies could find their results boosted even further in the third quarter by a positive currency translation effect, for the first time in years. For weeks already, the news from the corporate sector has been upbeat; but German chairmen may need to repeat the message for some time before it sinks in – and if they are wise, they will say it one or two extra times for the foreigners, without whom dullness could still prevail.

US closed-end funds

The UK investment trust industry may be declining in size as one after another of the sleepier trusts gets knocked off by the predators, but its US equivalent – the closed-end fund business – is going from strength to strength. Indeed, one probably has to go back to 1929, when trusts were being launched at the rate of one a day by such as J. P. Morgan and Goldman Sachs, to find a period of greater activity. While no one is predicting that investors in these funds will lose all their money – as many did in the Great Crash – there are signs that the authorities are becoming uneasy about the speed with which unsophisticated investors are being persuaded to part with their money by some of Wall Street's better known brokerage houses.

In the first eight months of this year $13.6bn has been raised by 36 new US closed-end funds – more than in all of last year, which was itself a record – and over the past two-and-a-half years $27.5bn, or almost as much as the entire market capitalisation of all UK investment trusts, has been sucked into an industry which less than a decade ago seemed on the verge of extinction. While the number of new closed funds is relatively small in total, they accounted for 40 per cent of all the money raised by initial public offerings last year, and in the first half of 1988 they were responsible for 80 per cent of the money raised.

There are a number of reasons for this popularity. According to Thomas J. Herzfeld Advisors, a Miami specialist in funds of this type, the average discount to net asset value had narrowed from 28 per cent in 1979 to just 1 per cent at the start of last year, and although it has since widened to 12 per cent it is still far less than the 22 per cent average for UK investment trusts. In addition, Wall Street firms have capitalised on the growing risk averseness of the small investor in the aftermath of last October's stock market crash by launching a number of closed-end bond funds.

There is another explanation for the popularity of recent issues which does not always reflect well on the promoter. Unlike the UK investment trusts, which are largely owned by the institutions, the vast majority of shareholders in US closed-end funds are relatively unsophisticated small investors. Throw in the 7 per cent sales commissions which Wall Street firms earn on new issues, plus the natural tendency for most closed-end funds to fall to a discount shortly after the issue, and there must be a suspicion that first-time investors are sometimes getting a raw deal.

Of course there are one or two notable exceptions, such as the Korea Fund, which because of its scarcity value trades at a premium of over 80 per cent to net asset value. And some of the new bond funds, at least, are still selling at a small premium. But on historical evidence this is likely to be temporary, and Herzfeld, for example, makes a habit of selling short most new issues of closed-end bond funds on the assumption that it will be able to buy the stock cheaper in the future.

As a general rule it is far better to ignore the initial public offering of a closed-end fund, and wait until the price has dropped. In time small investors may begin to wake up to this strategy, which could slow the pace of new issues; and supply may be reduced by takeover activity as corporate predators see the opportunity for asset-stripping. In the meantime, there is a good case for the SEC to insist that Wall Street firms put a more prominent investor health warning on one of their most profitable products.

Stock Exchange

Were it not for the quarterly post-mortems in the Stock Exchange's Quality of Markets report, one might have thought that everyone had got tired of discussing the crash. However, the latest issue shows that London, along with Paris and New York, was almost alone in even starting such discussions. Judging by the response to London's questionnaire, most of the world's other exchanges seem to have done no soul-searching at all: they have no clear idea of who was buying and selling last October, do not think that there are any lessons to be learnt from the crash, and see no need for preventative action. When it comes to discussing the causes, most foreign exchanges simply think of it as a one-off global event in which national influences played little, if any, part.

It is all very well for London gently to deplore the lack of thought that has gone into the matter. Its statistics on trading volumes since the crash suggest that it must have more leisure for examining the entrails than most other bourses. While turnover in London is stuck 30 per cent below pre-crash levels, volume in the rest of Europe taken together is up by nearly 10 per cent.

SECTION III

FINANCIAL TIMES SURVEY

The government of President Joaquim Chissano has started to win international support for its military and economic battles. But peace, still some way off, is critical to the country's recovery programme, writes **Michael Holman**, Africa Editor

Tenacity in adversity

Mozambique

FEW STATES in Africa have battled with such tenacity against disaster, both natural and man-made, as Mozambique.

Today the Frelimo government of President Joaquim Chissano is campaigning on three fronts – military, economic and diplomatic – to bring about recovery and win support for its cause.

As well as trying to cope with alternating drought and floods which marked the early 1980s, the government is fighting rebels who are responsible for, in the words of a senior US official, "one of the most brutal holocausts ... since World War Two"; it is radically changing its economic policies, once dominated by an unrealistic socialist blueprint; and is winning increasing western support for its efforts to provide black southern Africa with trade outlets which would end their dependence on routes through South Africa.

The result is what might seem some unlikely alliances for an ostensibly Marxist government. Although close ties remain with the Soviet bloc (Frelimo's main backer in the war for independence), British officers help train the Mozambican army and Mrs Margaret Thatcher has a standing invitation to pay a visit. The US is a major donor, while the International Monetary Fund praises the reform programme.

Whether the combination of international assistance and the government's tenacity in the face of adversity will be enough to tilt the balance away from disaster and towards development remains to be seen. Much will depend on whether the war against the Mozambique National Resistance (MNR) can be brought to an end, and this in turn depends on relations with South Africa.

A non-aggression pact with Pretoria, signed in 1984 by the late President Samora Machel, proved critical in forging closer ties with the West but failed to bring the conflict to an end. Mozambique honoured its side of the pact, ending transit facilities for guerrillas of the African National Congress (although Pretoria maintains that some insurgents still cross the common border). But South Africa, which took over white Rhodesia's role as the rebels' main suppliers in 1979, did not keep to its side of the agreement.

Following what seems to be a *rapprochement* between the two governments, this may change. In the meantime, as Dr Mario Machungo, the Prime Minister, explains, the government cannot delay economic changes until the MNR is defeated. "They are two sides of the same coin. We cannot wait for the end of the war to start economic rehabilitation. And we cannot postpone the consolidation of the economy while we defend our country."

The government faces a formidable challenge. A bleak colonial inheritance from Portugal, a chaotic transition to independence in 1975, weather which has alternated over the past decade between drought and flood, more than 20 years of conflict and some costly government policy mistakes have devastated the country.

Today almost a third of Mozambique's 15m people are either living as refugees in neighbouring states, displaced from their homes but still living within the country, or dependent on food aid. Nearly 100,000 died in the famine of 1983-84, and as many have been killed by the Mozambique National Resistance.

Mozambique's first war was for independence, waged by Frelimo. The second immediately followed, when Rhodesian forces hit a wide range of targets, including bridges, dams and power stations, in retaliation for Mozambique's support for the guerrilla army of Robert Mugabe, who was to become Zimbabwe's first Prime Minister.

Then followed the third and current conflict against the MNR, easily the worst of the three. Damage and lost earnings ran into billions of dollars. Aside from attacking ports and railways – losing Mozambique service charges and ensuring that its neighbours became dependent on South African routes – the MNR waged a savage campaign against the civilian population. Over 2,200 primary schools, 700 clinics, 900 stores and 1,300 trucks, buses and tractors have been destroyed.

It has been a body blow against an already fragile economy, which today functions at a fraction of 1974 levels, the year before independence.

The decline gathered pace after 1980, when the war started to intensify. Exports have fallen 60 per cent between 1980 and last year. Transport earnings dropped from \$915m in 1980 to \$412m in 1985, and remittances from Mozambican workers in South Africa fell sharply as the mines in the republic, under pressure from the government, drew more and more on domestic labour. The external debt of some \$3.2bn has a theoretical annual repayment rate of nearly three times the value of exports.

The most important target for the rebels are the three railway lines to the ports of Nacala, Beira and Maputo, serving the black-ruled hinterland. Rehabilitation of the lines and the ports is under way, under the auspices of the Southern Africa Development Co-ordination Conference, the nine-member association of African states. Considerable progress has been made, but questions remain about the security of the routes.

After the war, the greatest single obstacle to recovery is the acute shortage of skills. Portugal left behind an illiteracy rate which exceeded 90 per cent, and most of its 200,000 settlers decamped in the chaotic months before and after independence.

Alarmed by Frelimo's Marxist rhetoric and frightened by a spate of killing and counter-killing, triggered off by a futile revolt by rightwing whites in Lourenço Marques, since renamed Maputo, they took what they could carry, often destroyed what they had to abandon and left behind a country almost bereft of a managerial and entrepreneurial class.

The network of rural trading stores – a vital part of the agricultural system – closed, industry and manufacturing slumped overnight and commercial farming all but ceased.

Partly in accordance with an ideology which demanded state control of the economy, and partly because people looked to the state to help fill the gap left by the departing Portuguese, much of the economy was in effect nationalised within months, from corner shops to cement factories.

If the rhetoric of the day was to be believed, Mozambique had embarked on a transformation for which the only parallel would be post-revolutionary Russia. Early in 1980, buoyed by the belief that Zimbabwe's independence marked the dawn of a new, happier era for Mozambique, Samora Machel launched what was to be a "decade of victory over underdevelopment."

Although the state handed back some concerns to the private sector, the grand scheme envisaged the mechanisation of an agricultural sector dominated by vast state owned farms. People were to be regrouped in communal villages, making the provision of social services easier, and also leading to the "urbanisation of the rural zones", as Frelimo put it. Industrial development was to include a steel rolling mill using Mozambique's ore reserves, and an aluminium smelter, drawing hydro-electric power from the country's giant Cahora Bassa dam and local bauxite.

The rhetoric was overtaken by reality – not only of continued war, but of manpower and capital constraints – accompanied by the belated acknowledgement that the agricultural policy was a fiasco. As other African countries had discovered (or were discovering), neglect of peasant farmers, the bedrock of production, proved disastrous.

The turning point came in 1983. At Frelimo's fourth congress, delegate after delegate, encouraged by Machel, condemned the party's unrealistic policies and particularly those applied to agriculture. The reforms that then got under way laid the basis of the economic changes which have gathered pace under President Chissano's leadership.

In January 1987 the government reached the culmination of this long process. The metical was devalued, and has moved from 39 to the US dollar to around 580 today. Price controls have been lifted on all but some 30 items, and even this list will be trimmed. The budget deficits have been reduced to levels agreed with the IMF. The number of state-owned trading monopolies has been reduced from 14 to six. Exporters have been encouraged through schemes which allow them to retain between 30 and 70 per cent of foreign exchange earnings.

Ministers extol the virtues of

Continued on Page 6

CONTENTS

Foreign relations: closer links with the West
Investment: Maputo's policy shift 2
Economy: rural areas hold recovery key
Banking: challenges that must be tackled 3
Agriculture: guerrillas strike at farms
Industry: strong potential 4
Trade corridors: economic war against South Africa
Machaze: where surviving is the name of the game 5
People's Republic: basic facts
Businessman's Guide 6

■ *President Chissano acknowledges his supporters. Photos: Mozambique Information Agency*

A policy shift by the government

Maputo tries to attract foreign investment

WHILE THE Marxist rhetoric lingers on, economic policy in Mozambique is increasingly capitalist and outward-looking. This is the consequence of the failure of socialism during the first 10 years of independence and a recognition that there can be no sustained recovery without western aid and investment. The policy shift is perhaps most evident in Maputo's new campaign to attract foreign investment, spearheaded by the Office for Foreign Investment Promotion (GPIE).

There are no reliable figures of the level of foreign investment in Mozambique. Immediately after independence the government was forced to take over many Portuguese-owned enterprises in agriculture, industry and services that had been abandoned by their owners. Some enterprises were nationalised, state farms were established and with the exodus of Portuguese entrepreneurs foreign trade and some parts of domestic commerce were dominated by state trading corporations.

The policy U-turn came at the Fourth Frelimo Party Congress in 1983 which paved the way for far-reaching economic reforms, including a revamped legal framework for foreign investment, first published in August 1984. This established the GPIE with the function of attracting new investment, but it is only since January 1987 when the economic rehabilitation programme was launched that GPIE has come into its own as a largely independent agency.

GPIE's investment guidelines give priority to new foreign investment projects designed to increase and diversify exports, save foreign exchange through import substitution, improve the balance of payments and increase the supply of goods to the domestic market. The main areas of investment opportunity identified are in agriculture and agro-industry, but minerals, light industry and tourism also have strong development potential. Foreign investment in existing facilities, rather than in new ventures, is at the top of the agenda.

There is preference too for local partners from either the private or the public sectors. Given the very limited indigenous private sector and the government's reduced role in the economy under the reform programme, there are unlikely to be many joint ventures with local partners. Despite this,

The main opportunities are in agriculture and agro-industry. Foreign investment in existing facilities, rather than in new ventures, is at the top of the agenda

GPIE has identified local sponsors in Mozambique as potential partners in ventures with foreign entrepreneurs.

Investment legislation guarantees legal protection of foreign-owned property acquired in terms of the 1984 Direct Foreign Investment Act. It also specifies the right to remit profits and re-export capital. There are three categories of investment incentives:

- General incentives providing exemption from customs and import duties on imported equipment and materials necessary for project implementation. In addition, duties on raw and intermediate materials used in the manufacture of goods for export are also waived. Foreign technical staff employed in project feasibility studies or project implementation are exempt from income tax, while there is no tax on profits transferred to reserves in terms of the agreed investment authorisation document. Firms may deduct from taxable profits the equivalent of 300 per cent of "reasonable expenses" incurred in training Mozambican personnel.
- Depending on the actual project authorisation agreement, profits earned by a new venture are free of tax from two to 10 years, while for a similar period there is no withholding tax on profits distributed to foreign shareholders.
- Category three incentives are specific to individual projects with the Council of Ministers being authorised to establish additional incentives "on investment projects of outstanding importance" to the economy.

Where a project generates and retains foreign exchange, profits may be remitted abroad using these funds. The norm is to allow exporters to retain between 30 and 70 per cent of their export revenues though it is intended to reduce this ratio to 50 per cent. Where a project can be shown to have generated import savings, then transfers abroad are allowed on the basis agreed in the original foreign investment authorisation document. Permission to remit profits is normally granted within 90 days of request.

GPIE fulfils two main functions. First, it is responsible for extracting new investment from abroad. To that end it has published details of the relevant legislation, a synopsis of a detailed investors' guide (the entire document is scheduled for publication within a month) and a booklet advising investors how to submit their project applications.

The failure to encourage domestic investment could undermine efforts to attract foreigners since prospective newcomers pay attention to the experience of those already in the market

The second function is that of the "one-stop investment shop." Prospective investors are required to submit four copies of a very detailed investment proposal to the GPIE which appoints one of its analysts along with an official of the relevant government department to appraise the project. This may involve renegotiation of some aspects of the proposal which is then put to an evaluation committee, chaired by the director of GPIE with representatives from the central bank, the national planning commission and government ministries including those of Finance and Trade. If this committee approves, the project goes to the Minister of Planning — and depending on its size and scope — possibly also to the Council of Ministers for final authorisation.

The strategy is criticised as being one-sided by businessmen in Mozambique, whose ongoing operations do not enjoy the same incentives and treatment. They point out that the failure to encourage domestic investment will undermine efforts to attract foreigners since prospective newcomers pay close attention to the experience of those already in the market.

Given Mozambique's rich natural resource base and the scope for reviving projects that were profitable before independence, there is no shortage of foreign investment opportunities. The key constraints remain the war, serious infrastructural bottlenecks and the acute shortage of skills, at just about every level.

In addition, Africa is attracting little foreign investment these days and a country with major shortcomings of infrastructure and skills, whose investment climate is likely to continue to suffer as a result of escalating regional political instability in southern Africa, will find it difficult to overcome investor reluctance.

But by establishing the investment promotion office, providing a broad range of incentives and implementing a reform package that gives pride of place to economic efficiency at the expense of political ideology, the Maputo government has gone a long way towards creating a positive environment for foreign investment.

Tony Hawkins

FOREIGN RELATIONS

South Africa move leads to closer links with the West

A PAINFUL decision taken by the late President Samora Machel in 1984 has proved a watershed in Mozambique's foreign relations.

After months of deliberation, and after consultations with the Soviet Union, one of Mozambique's main allies, President Machel reluctantly decided that the price being paid for his government's assistance to the African National Congress of South Africa was too high. The assistance was comparatively modest, allowing the passage of arms and guerrillas into South Africa, but — unlike Angola and Tanzania — stopping short of providing training camps.

It nonetheless gave Pretoria an excuse for its support of the rebel Mozambique National Resistance, waging an increasingly successful campaign of sabotage of economic targets, including ports and railways, and terrorising the civilian population.

In March 1984, at the border town of Nkomati, President Machel and President P W Botha signed a non-aggression pact which also envisaged greater economic co-operation between the two countries. Mozambique expelled officials of the ANC's guerrilla wing, including the then chief of staff, Mr Joe Slovo. In return, South Africa was expected to close an MNR camp in the northern Transvaal, end its own commando operations in Mozambique, and stop airdrops of supplies to the rebels.

The decision stunned the ANC, angered some of the black-ruled states of the region, and provoked private misgivings within Mozambique's ruling Frelimo party. But as subsequent developments were to show, although the pact failed to end South African support of the rebels, it proved critical in Mozambique's campaign to win western economic, humanitarian and military aid.

It soon became clear that the pact's first and most important objective — an end to the war — had failed. Documents captured in 1985, when the rebel headquarters at *Gorongosa* was overrun, showed that Mr Louis Nel, then South Africa's deputy foreign minister, had visited the headquarters months after the pact was signed, and military assistance had not ended. Mozambican ministers maintain that covert aid has continued. South Africa, for its part, claims that ANC guerrillas have continued to infiltrate through Mozambique.

Western diplomats, however, put the burden of the blame for the pact's failure on Pretoria. For the US and Britain, as well as other western states, evidence of South Africa's bad faith — together with Mozambique's willingness to undertake economic reforms, and its key role in regional efforts to reduce transport dependence on South Africa — has been critical in shaping policy towards the government in Maputo.

This combination helped avert the possibility that Washington might grant the MNR the same military and diplomatic support given to Angola's Unita rebel movement.

Unlike Unita, the MNR, some 10,000 strong and commanded by Afonso Dhlakama, does not have a credible pedigree. Created by the Rhodesian government in the mid-1970s as a way of harassing the Mozambique government, the MNR was taken over by Pretoria in 1980, when Rhodesia became Zimbabwe.

Pascoal Mocumbi, the country's Foreign Minister

Ashley Ashwood

The standing of the MNR, which from its inception had a reputation for brutality, was finally demolished in a recent US government report which calculated that the rebels had killed more than 100,000 civilians in the course of its campaign against the government.

US support for the Mozambique government has, if anything, become firmer under Samora Machel's successor, President Joaquim Chissano. In the case of Britain a further point must be added: Mrs Margaret Thatcher's appreciation of President Machel's efforts to ensure that the 1979 Lancaster House conference on Rhodesia's independence was a success has made ties especially cordial.

The result is increasingly close links with the West, including institutions such as the International Monetary Fund and the World Bank. The US is the largest supplier of food aid, worth $70m in 1987 and likely to be matched this year, Italy ($50m in aid expected this year) and Sweden ($30m) are among the leading donors, while last year Britain provided over £34m in development aid, food aid and disaster relief. But Britain's most appreciated contribution is probably in the military sphere: a training scheme in Zimbabwe for Mozambican army officers.

This link between aid projects, and the need to provide direct or indirect military assistance in protecting them, is increasingly accepted by western donors. "It makes no sense to help build a bridge, for example, or a factory, only to have it destroyed by the MNR," acknowledged a western diplomat. "We must do more to ensure that the Mozambican army is better trained, better equipped, and capable of defending the projects we have backed."

There is little likelihood, however, that this assistance will go beyond military training and supply of what is termed "non-lethal" equipment such as radios or vehicles. For direct help Mozambique's hard-pressed 30,000-strong army will continue to rely heavily on its regional allies.

Some 8,000-12,000 Zimbabwean soldiers play a leading role in protecting the road, rail and oil pipeline "corridor" from Mutare to the port of Beira, the railway from Zimbabwe to Maputo, and the road through Tete to Malawi.

Soldiers at battalion strength from Malawi and Tanzania are also either deployed in northern Mozambique, or are held in reserve, but have been unable to secure the rail link to Nacala port.

It seems clear that even with this assistance, Mozambique will not enjoy peace until South African support for the MNR ceases.

There are some signs that relations between the two countries are improving — an agreement was signed last June on the repair of cable pylons serving the Cahora Bassa hydroelectric dam, from which South Africa will take power, and in May the governments agreed to resume meetings of their joint security commission, established under the Nkomati pact.

Mozambican officials, however, remain in doubt about Pretoria's intentions. "We are waiting to see the concrete results," says a sceptical minister.

Michael Holman

THE GOVERNMENT

Prime Minister ....Mario Fernandes da Graça Manchungo
Minister of National Defence........General Alberto Joaquim Chipande
Minister of Transport and Communications..............Armando Emílio Guebuza
Minister of Security .....Maj-Gen Mariano de Araújo Matsinha
Minister of Co-operation ....Jacinto Soares Veloso
Minister of State Administration ....José Oscar Monteiro
Minister of Education ....Graça Machel
Minister of Industry and Energy........ ....António José Lima Rodrigues Branco

Minister of Foreign Affairs ....Pascoal Manuel Mocumbi
Minister of Trade ....Manuel Jorge Aranda da Silva
Minister of Finance ....Abdul Magid Osman
Minister of Justice ....Ussemane Ali Dauto

Minister of Information ...Teodato Mondim da Silva Hunguana
Minister of Home Affairs ....Col Manuel José Antônio
Minister of Mineral Resources ....John William Kachamila
Minister in the Presidency ....Feliciano Salomão Gundana
Minister of Culture ....Luís Bernardo Honwana
Minister of Labour ....Aguiar Jonassane Reginaldo Real Mazula

Minister of Building and Water ....João Mário Salomão
Minister of Agriculture ....Alexandre Jose Zandamela
Minister of Health ....Leonardo Simão

Deputy Minister of Security ...., Maj-Gen Salésio Teodoro Nalyambipano
Deputy Minister of Trade ....Daniel Gabriel Tempe,
Deputy Ministers of Transport and Communications..................Isaías de Abreu David Muhate, Rui Jorge Lousã
Deputy Minister of Foreign Affairs ....Daniel Sául Mbanze
Deputy Ministers of Education........ ....Joao Carlos Beirão, Paulo Adelino Muiianga
Deputy Minister of Home Affairs......... ....Hipólito Pereira Zózimo Patrício
Deputy Minister of Health ....Jose Maria Igrejas Campos
Deputy Minister of Agriculture Alfredo Maria Cepeda Gamito

How aid might lead to self-sustained growth

Rural areas hold economic recovery key

THE BELIEF that a Marshall Plan-style aid programme is appropriate in contemporary Africa is currently being put to the test in Mozambique, one of the world's poorest countries. Aid inflows averaging some $800m annually have fuelled the beginnings of a economic recovery but this will only be transformed into self-sustained growth if three crucial conditions are met.

● The first and most obvious is an end to the war. At present, the danger is that economic recovery will be confined largely to the main urban centres such as Beira and Maputo, but Mozambique is essentially an agricultural economy with farming providing more than 45 per cent of GDP. There will be no economic recovery, let alone renewed growth, without a return to normality in rural areas, while the recovery will not take hold in the absence of a major resurgence of agricultural exports. An improved security situation is all the more important given the need for a reliable and efficient transport system and the exploitation of mineral resources in remote areas currently threatened by the MNR rebels.

● The second prerequisite concerns the management and exploitation of the economy. With the exodus of the Portuguese colonialists in 1975, coupled with a literacy rate at the time of a mere 7 per cent, Mozambique was ill-equipped to manage a modern economy. The large-scale rehabilitation programme currently under way — most evident in transport — will pay lasting dividends only if it creates human skills to operate, maintain and repair machinery, vehicles and port installations. So critical is the shortage of technical skills and of managerial expertise that a period — indeed a prolonged one — of "judicial management" by the aid agencies is likely to be necessary to ensure that rehabilitation is translated into self-sustaining expansion.

This requirement is reinforced also by the fact that a high proportion of existing aid inflows are emergency in character and therefore unlikely to provide a basis for subsequent economic growth. In recent years about 80 per cent of all imports of goods and services (excluding interest payments) were funded from grants and loans.

● Third, not even the most sanguine observers believe that the aid agencies, on their own, can or will turn the Mozambique economy around. Admittedly, an appropriate policy framework has been developed by the IMF and the World Bank, but this is not going to rejuvenate the economy in the absence of a major increase in private sector investment. Because the indigenous private sector is tiny, meaningful levels of investment will be achieved only if foreign companies are prepared to take the plunge on a scale not experienced elsewhere in the region in recent years, with the possible, and partial, exception of Botswana.

The magnitude of the economic recovery task can hardly be exaggerated. Between 1980 and 1986 production fell by about a third while per capita incomes halved. Exports fell 60 per cent from a peak of $281m in 1980 to an estimated $96m last year while the ratio of exports to GDP plunged to below 4 per cent in 1986 from more than 17 per cent in the early 1980s.

Traditionally, Mozambique relied on substantial earnings from invisible transactions — transport revenue from its ports and railways and the remitted income from migrant workers on the South African mines — to cover its trade gap. But the decline in transport earnings from Meticais 3bn in 1980 ($915m) to Mt1.7bn in 1985 ($412m) at a time of plummeting exports and stagnant worker remittances resulted in a near-doubling in the current account deficit from Mt13.7bn in 1980 ($4.2 bn) to Mt25.2bn in 1986. This occurred despite stringent controls on imports which virtually halved from $800m in 1980 to $420m in 1985.

As the war escalated, so the share of food imports in the total doubled to 27 per cent while imports of spare parts and equipment declined by some 25 per cent. Between 1980 and 1986, the import/GDP ratio fell from 37 to only 14 per cent, underscoring the severity of import starvation, a problem exacerbated by the need for substantial imports of food and other consumables.

There could be no clearer rejection of the dogma of state control than Maputo's current emphasis on private initiative

BALANCE OF PAYMENTS (figures in $m)

	1981	1985	1986	1987*	1988*	1989*
Exports	281	77	79	96	105	130
Imports	801	424	547	645	765	800
Trade balance	-520	-347	-468	-549	-660	-670
Invisibles (excluding interest)	90	24	46	-28	-19	-5
Debt-servicing	345	382	544	504	456	410
Financing required	775	705	966	1,081	1,135	1,085
Aid inflows	778	368	497	693	693	693
Debt relief	-	193	-	408	334	264
Arrears	-	153	536	-	-	-
Financing gap	-	-	-	-	126	142

*Estimate/forecast

Source: Government of Mozambique and FT estimates

External difficulties were compounded by the worsening foreign debt situation. At the end of 1986, disbursed foreign debt was estimated at $3.2bn, of which just over one-third represented loans from the Eastern bloc and 40 per cent loans from OECD countries and banks, while outstanding arrears amounted to $1.2bn. The debt-service ratio (interest and debt repayments as a ratio of exports) was 275 per cent, despite the 1984-85 rescheduling agreements with Paris Club creditors.

Continuing dependence on the combination of aid flows and debt relief is evident from the table, showing current account outflows and amortisation of foreign debt averaging $1.1bn annually during 1987-90. Although exports are forecast to double between 1985 and 1990, the trade gap will double from $350m to $775m, leaving a current account deficit by 1990 in the region of $860m.

Aid inflows — excluding emergency assistance — are forecast to average $693m annually over this period, still leaving a financing gap of $400m a year. The pre-Toronto summit expectation was that debt relief would contribute some $800m of the required $1.2bn, leaving new commitments of $400m still to be secured. While the Toronto initiative should reduce the financing gap still further, the fact that aid flows and debt relief between them will be called upon to meet almost 90 per cent of Mozambique's foreign obligations highlights the continuing and massive imbalance between external assistance and domestic resources.

Acknowledging that such a situation is unsustainable over the medium term, Mozambique launched a far-reaching economic recovery programme in January 1987, encompassing a broad range of IMF/World Bank-type reforms. The metical was devalued from 39 to the US dollar 18 months ago to its current level of 580 to the dollar. This has been partially successful in boosting exports, realigning domestic prices and narrowing the black market premium from some Mt1,450 to the dollar to around Mt600 in mid-1988.

Price controls have been relaxed, reducing the number of products with fixed prices from 46 to just over 30 while massive price and wage increases were announced after major devaluations. Inflation last year was estimated at 166 per cent and this has had a severe impact on low-income groups in urban areas where it costs a month's salary to buy a shirt.

Inflation is forecast to slow substantially this year to 60 to 70 per cent, partly reflecting the slower rate of currency devaluation allied with sharply higher interest rates and a stabilisation of the fiscal deficit. With military spending absorbing a third of the national budget, policies to reduce the budget deficit have focused — on the revenue side — on broadening the tax base and improving collection, while on the expenditure side subsidies are being cut and capital spending is being tied to aid flows.

On the external side, measures to improve economic efficiency include a reduction in the number of products that must be traded through monopoly state trading enterprises from 11 imports and three exports to five imports and one export. Import liberalisation also includes plans to allow at least some imports without quotas while exports are being encouraged by the retention scheme that allows exporters to retain between 30 and 70 per cent of the foreign currency earned.

It is vital too that Mozambique diversifies as well as expands exports. Last year prawns accounted for some 40 per of total exports while cashew nuts contributed 34 per cent. The balance was made up largely of agricultural products — cotton, tea, sugar, copra and citrus — and refined petroleum. Clearly, as and when agricultural recovery takes hold, there is scope for a strong recovery in farm exports, produced both on family farms and on estates, but prawn production appears to be close to its limits of commercial exploitation. This means that agricultural exports must expand rapidly if the ambitious 20 per cent annual growth rate target in export volumes is to be met.

A combination of policy reform and aid inflows has reversed the prolonged downturn in the economy over the past two years. Real GDP increased 4.3 per cent in 1986 and a further 4 per cent last year with growth being spearheaded by an 18 per cent expansion in manufacturing and 5 per cent in construction. The war continued to affect output in agriculture which was little changed and in transport where there was an 8 per cent decline.

While the recovery plan projects an increase in the growth rate to 6 per cent this year, officials expect growth to be slightly slower than in 1986-87. But over the 1986-90 period growth is forecast to average between 4 and 5 per cent annually, with the population increasing at 2.6 per cent a year, implying a steady recovery in real living standards.

The Marshall plan strategy and the gradual return to decentralised, market-determined pricing and output decisions have generated an improved climate for business and investment decisions, but for growth to become self-sustaining, as distinct from heavily aid-dependent, it is essential for the ordinary Mozambican, in the words of Finance Minister Magid Osman, to become "more self-reliant" and less dependent on the state.

There could be no clearer rejection of the dogma of central planning and state control than Maputo's present emphasis on private initiative, foreign investment and reliance on market signals. If the war can be scaled down, then the recovery now evident should gather momentum during the 1990s, but there is a very long and difficult road ahead in rebuilding, virtually from scratch, an economy that even in its heyday was little more than an undeveloped colonial enclave.

Tony Hawkins

BANKING

Challenges that must be tackled

ALTHOUGH MOZAMBIQUE operates only a very rudimentary banking system with virtually no effective competition, monetary policy is playing a key role in the recovery programme.

The banking system that emerged from the nationalisation and consolidation of the late 1970s is dominated by the Bank of Mozambique (BDM) which operates both as a central bank and a state-owned commercial bank. It has a monopoly of external transactions though a decision in principle has been taken to allow the country's sole privately-owned bank — Banco Standard Totta, part of the Standard Chartered group — to operate with a partial foreign exchange licence soon.

The central bank accounts for about three-quarters of the credit in the economy, lending both to state-owned enterprises and the private sector. A further 20 per cent is provided by another state-owned institution, the Banco Popular do Desenvolvimento (BPD), which lends mainly to agriculture, while Standard Totta's market share is put at 5 per cent. The bulk of bank lending has been to the public sector with state and so-called "intervened" enterprises — those picked up by the government when their Portuguese owners fled — accounting for some 87 per cent of outstanding bank credit in 1985.

In the first half of the 1980s, domestic credit trebled, resulting in excess liquidity in the system at a time when output was falling. People were increasingly reluctant to hold money with farmers insisting on bartering their crops for essential inputs or scarce consumer goods. At the same time, many Mozambicans had access to limited amounts of foreign currency in the form of South African rands brought in by returning migrant workers.

By the mid-80s, barter and foreign currency transactions predominated in the economy, resulting in substantial idle meticais balances in the banks. Bank lending took three main forms — loans to government to fund the budget deficit, loans to cover enterprise losses and on-lending of aid inflows.

All this changed when the rehabilitation programme was launched in January 1987. Interest rates were raised from a range of 0 to 6 per cent for deposits and 3 to 10 per cent for loans to between 3 and 20 per cent for deposits and 12 and 35 per cent for loans. Overall credit ceilings were set and new criteria emphasising commercial principles were established for the evaluation of bank lending. In 1988, for instance, credit is being allowed to increase 43 per cent with a marked reduction in real lending to government agencies.

To mop up excess liquidity and help finance the budget deficit the government issued 10bn meticais ($1.7m) of treasury bonds early in 1988. The five-year bonds will be redeemed in 1993 at their face value of 10,000 meticais plus a 60 per cent premium designed to offset inflation. Interest is payable in US dollars at the rate of $1.3 per bond, equivalent to a current yield of some 7.5 per cent.

Interest can be used to pay for imports, to buy goods in the foreign currency shops or to purchase travellers' cheques for overseas trips. Whether such bond issues will retain their popularity remains to be seen, given inflation forecast at 60 per cent in 1988 alone, but the creation of a vehicle to mobilise domestic savings, with the added sweetener of interest payable in foreign currency, is obviously an important step forward in developing a domestic capital market.

Three important challenges to be tackled include the need to provide bridging finance for rehabilitation projects which may need to be carried for a prolonged period before breaking even. A key problem waiting in the wings is that of non-performing bank loans which will probably necessitate a government rescue package. Thirdly, as elsewhere in the economy, training of skilled bank staff will remain a top priority for the foreseeable future.

But for the immediate future, monetary policy will be called upon to restrain credit growth and help check inflation, while contributing to the financing of the budget deficit. This will continue to be done by way of credit ceilings and high nominal interest rates, though there are plans to move to a system of monetary base control, using reserve requirements, later on in the programme. At the same time, it will be necessary to ensure that credit is available to those sectors of the economy with the capacity to supply goods to the domestic market and generate foreign exchange and jobs.

Tony Hawkins

The changing structure of the country's industry

Strong recovery potential

AFTER FALLING 25 per cent in the first half of the 1980s, manufacturing output has recovered in the past three years especially during 1987 when production rose some 20 per cent.

Industry's share in GDP peaked at 13 per cent just before independence in the mid-1970s, declining to only 7 per cent by 1985. Manufacturing was particularly hard hit by the collapse of export crop production since not only was there a fall in processing activity, but industry was starved of the foreign exchange needed to purchase imported inputs.

During the 1980s, industry structure has changed, reflecting the reduced role of food processing. At independence, three sectors accounted for more than half industrial production, with food processing contributing just over 30 per cent of the total while beverages and textiles accounted for 10 per cent each. By 1986, the share of foodstuffs in the total had halved while textiles and clothing accounted for one-third of the total and beverages and tobacco 26 per cent.

There are an estimated 575 manufacturing enterprises in Mozambique, most of them state-owned or "intervened enterprises", meaning that the state was forced to take over management of the businesses abandoned at independence by their former owners. Some two-thirds of industrial output emanates from the state-owned sector.

In the wake of the steep decline in manufacturing activity, there is potential for a strong rebound, based initially on increased capacity utilisation, which is currently estimated to average 35 per cent, ranging from a low of 9 per cent in soap production to a high of 88 per cent for cigarettes.

But because so much manufacturing activity is highly import-dependent, substantial increases in imported inputs are a prerequisite for higher capacity utilisation rates. The recovery programme projects a 50 per cent increase in imports for manufacturing industry over the next three years with raw materials absorbing three-quarters of the import bill while spare parts and capital equipment make up the balance.

The top priority is increased production of consumer goods for distribution in rural areas – the logic being that this will encourage increased cash crop production by peasant farmers. Second on the list is the production of intermediate items such as textiles, cement and building materials while the planners are also anxious to boost output of those products, like beer and cigarettes, that generate increased government revenue.

The massive devaluation of the currency can be expected to boost import-replacement activities and encourage manufacturers to utilise local rather than imported raw materials where at all possible. At the same time, devaluation has increased the local currency cost of imported capital equipment and spares by a factor of 15 and this could well jeopardise industrial rehabilitation in some cases. Mozambican officials acknowledge this problem, but point out that major devaluation was inevitable and that its impact on the rehabilitation programme is being cushioned by aid financing.

It is argued too that the industrial policy environment has improved out of all recognition following the realignment of the exchange rate, the moves to allow greater managerial autonomy in state enterprise, and increased flexibility both in pricing decisions and access to foreign exchange. The number of industrial items subject to fixed prices has been reduced to only seven from more than 40 three years ago.

But given agriculture's dominant position in the economy, it seems clear that the aid-fuelled industrial revival will run out of steam unless or until there is a major recovery in rural demand for domestic manufactures and increased farm production for local processing. Agricultural recovery rather than aid is the key to sustained industrial growth.

Mining's role in the economy is peripheral with production accounting for 0.7 per cent of GDP in 1981. Output has since declined as the war has worsened to the point where in 1986 its share of GDP was less than 0.25 per cent.

Coal is the most important product with known reserves in excess of 6bn tonnes. After nationalisation in 1978 production at the Moatize Mine doubled, reaching 830 000 tonnes in 1981, but this exceeded the capacity of Beira port and production was subsequently reduced when the line to the sea was cut by the rebels. By 1985 production had plummeted to less than 50,000 tonnes annually. There are ambitious plans to produce up to 5m tonnes annually, primarily for export, but this will not be possible without a major improvement in the security situation and massive investment in infrastructure, including the port of Beira itself.

Because only limited prospecting has been undertaken, the full potential of the mining industry is simply unknown, but a recent report on mineral potential in the region identifies 11 projects in Mozambique, including bauxite near the Zimbabwe border, graphite, fluorite, platinum-nickel and diamonds.

Mozambique also possesses what are believed to be the world's largest reserves of tantalite and used to be the world's second largest producer, but last year exports were worth only $400,000. Two years ago, Lonrho signed an agreement to mine gold near the Zimbabwe border while the US Edblow group is investigating a titanium project in the north.

There is potential too to develop a steel complex at Tete based on high-quality iron ore deposits.

Tony Hawkins

Food processing is not as significant as it was, but cashew nuts are still an important export

An armed soldier on the look-out in Gorongosa, about 100 kilometres north-east of Chimoio

AGRICULTURE

Guerrillas strike at farms

NO SECTOR of the Mozambican economy is more important, or in more of a shambles, than agriculture. In peacetime, farming should provide 85 per cent of employment and nearly half of the gross domestic product. Agriculture and prawn fishing together account for all but a fraction of exports.

But since independence in 1975 the story of Mozambican agriculture has been one of catastrophic decline. Most of the Portuguese colonisers abandoned their plantations to the country's new Marxist-Leninist rulers and their vision of a land tilled by the tractors of giant state farms and co-operatives. Nearly a fifth of the rural population were collected into communal villages.

The effects of such policies (now discredited and in some cases reversed) have been far surpassed by the impact of the guerrilla war since South Africa began supporting the Mozambique National Resistance in 1980. MNR rebels waging a campaign of terror have brought farming to a standstill in many areas, making roads impassable, isolating villages from their markets, destroying machinery and sabotaging tea and sugar factories. The two agriculturally rich provinces of Zambezia and Nampula, home to 40 per cent of Mozambicans, have been badly hit by the war.

Natural disasters – droughts, floods, cyclones and insect pests – have simply compounded the misfortunes of the Mozambican peasantry. Out of a national population of some 15m, about 1m people have become refugees in neighbouring countries; a similar number have fled their homes in the countryside to cluster as miserable *deslocados* in safer zones inside Mozambique and a further 2m peasants who stayed at home are unable to feed themselves, let alone sell their surplus to the cities.

Statistics tell the tale only too well. Between 1980 and 1986 total exports fell nearly 75 per cent. Cashew nut exports fell from 15,600 to 3,100 tonnes, sugar exports from 63,800 to 19,500, and tea exports from 30,000 to 1,500. Copra (from coconuts), cotton, citrus and other exports suffered similar fates. Significantly only the prawn business, operating safely offshore, was able to maintain performance and record a rise in exports from 5,000 tonnes to 5,400.

Food crops have also fared badly. The areas planted, the yields and the output figures have mostly fallen. Marketed cereal production now accounts for only about 7 per cent of Mozambique's requirements, and foreign donors have been asked for nearly 1m tonnes of grain and other foods this year. In relation to the number of inhabitants, Mozambique's needs are much greater than those of Ethiopia.

Vegetable production, on the other hand, has soared in the "green zones" around the cities, a development which reflects the relative security of such areas compared to the rest of the countryside. Agricultural extension officers and foreign aid workers have in many instances been driven back to the outskirts of provincial capitals. "Development of the country cannot rely on vegetable production alone," laments a foreign agricultural expert resident in Maputo.

In the meantime, donor operations can have undesirable side-effects. Their development projects become targets for rebel attacks, thus endangering the very people they are trying to help, while their aid shipments help to induce a sense of dependency. Already it is said that some wily peasants sell every grain of their maize on the commercial market in the knowledge that they can feed their families with free food aid.

The essential question about Mozambique's Economic Recovery Programme, which in 18 months has already filled the city shops, is whether it can revive the rural areas, revitalise peasant agriculture and fulfil its target of increasing export crop volumes by 15 per cent a year until 1990.

Like everything else in Mozambique, it depends on the war. All the talk of higher farm prices, incentives for producers, liberalised marketing and rural credit schemes can only be seen as academic posturing in an embattled and hungry village inaccessible by road, short of seeds, and without consumer goods or a viable money economy.

First reports from the government are mixed. State and private commercial farms, adversely affected by sabotage and insecurity, performed poorly last year, but the peasant family sector managed to increase marketed production of food and cash crops by 27 per cent. In the more secure regions traders have taken up the challenge to inject some life into the economy, buying crops from villagers and selling them consumer products such as radio batteries.

Meanwhile, the state of the cashew industry – cashews are a smallholder crop and Mozambique's most important agricultural export – is giving the government particular cause for concern. A report by the Food and Agriculture Organisation last year said that cashew production, already down to a quarter of pre-independence levels, was threatened by neglect and a lack of replanting over the past 15 years.

The FAO suggested that $35m was required over the next few years to restore the industry, which once made Mozambique the producer of nearly half the world's cashews. Now the Mozambican share has fallen to a tenth of world production and the industry is characterised by poor management and quality control. Many of the valuable cashew nuts are eaten as basic food for want of anything else.

At least cashews and other cash crops have scope for expansion in a country which so far uses only a small proportion of its available arable land. The relatively successful prawn industry appears to have neared the limits of expansion.

The government is anxious to attract foreign investors into commercial agricultural projects centred on protected trade corridors from the hinterland to the ports of Beira, Nacala and eventually Maputo.

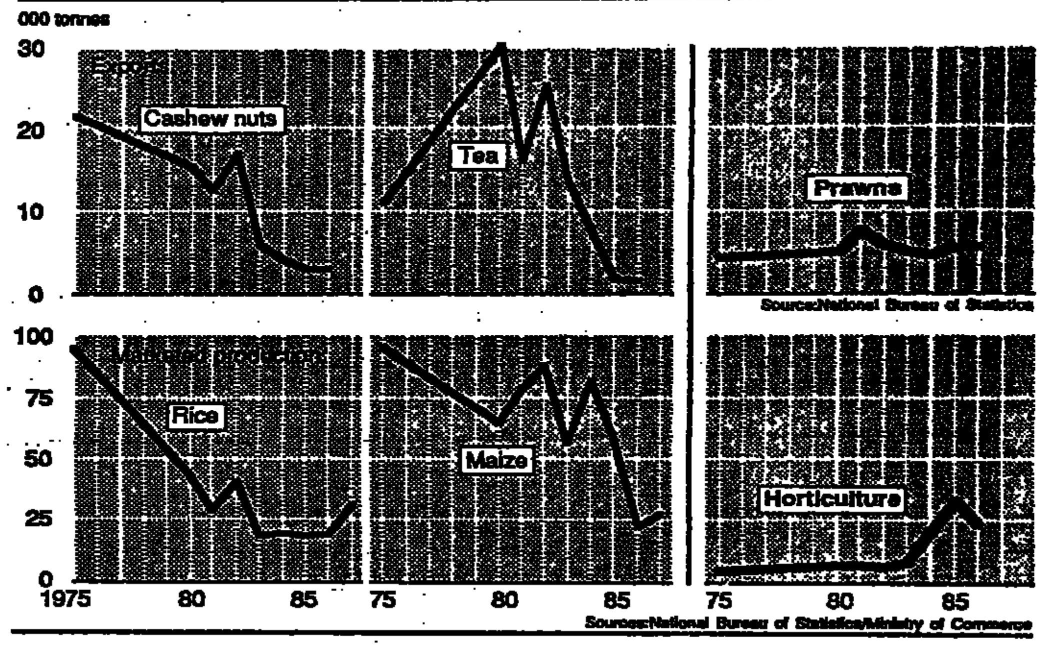
Lonrho (through Lomaco, its joint venture with the Mozambique government) has made the largest investments, partly to protect its interests in neighbouring Malawi and Zimbabwe. Lomaco exports cotton, citrus and tomato paste, but says that 16 per cent of its costs go towards security, including a private army.

Other investors and aid organisations are looking at tobacco, timber, sugar, citrus and other products, but even if the rebels allow them to succeed, it will be impossible to replace the 2.5m smallholder families as the engine of the Mozambican economy.

"Industries in some sectors cannot sell their products mainly because the rural market is very limited today as a result of the security situation," says Mr António Branco, the Industry Minister. "The key thing is to increase exports, increase the revenue of transport services and to develop agriculture – otherwise the other sectors such as construction and industry will be completely constrained."

Victor Mallet

Agriculture in decline



No shortage of food in Maputo market

The country is becoming an important transit route for regional trade

Trade corridors may play role in economic war against South Africa

WITH ROADS and railways vulnerable to guerrilla ambushes and massacres, the only safe way to travel around Mozambique these days is by air. It is therefore all the more remarkable that Mozambique, despite the collapse of its domestic transport network, is becoming an increasingly important transit route for regional trade.

Historically Mozambique's Indian Ocean ports were designed for just such a regional role, with Nacala in the north serving landlocked Malawi, Beira in the centre catering for landlocked Rhodesia (now Zimbabwe), and Maputo in the south taking traffic from Zimbabwe, Swaziland and the Transvaal Province in South Africa.

Port and railway charges remain a significant source of foreign exchange for Mozambique, but rebel attacks and South Africa's moves to divert trade away from Maputo to its own ports have drastically reduced the transit business. Official figures show that international rail traffic through Mozambique fell to 2.3m tonnes in 1986, about one fifth of the level at independence in 1975. International cargo handled at the ports fell from 13.8m tonnes to 3.6m.

Mozambique is now trying to reverse the trend, in two completely different ways. On the one hand, it wants to increase South Africa's use of Maputo and has accepted South African technical assistance to rehabilitate the cranes and other equipment.

On the other hand, Mozambique has become the linchpin of efforts by South Africa's black neighbours to reduce their trade dependence on Pretoria.

Working through the nine-member Southern African Development Co-ordination Conference (SADCC) – a body set up in 1980 to reduce dependence on South Africa – foreign donors have pledged hundreds of millions of dollars to restore the trade corridors through Mozambique. Some donors see the projects as an alternative to economic sanctions against South Africa; others regard them as a way of reinforcing such sanctions, but all agree that Mozambique will benefit.

The port of Maputo: a sharp decline in international cargo

It remains to be seen if the corridor system can work effectively at a reasonable cost. In a successful corridor Mozambique would benefit from higher foreign exchange earnings, and from the creation of a relatively secure strip of land where normal life resumes and agricultural projects can proceed without danger. Eventually Mozambican officials would like to expand the safe zones on either side of the corridors.

But in practice no corridor is completely safe. The short Beira route is the best and it takes 8,000 Zimbabwean troops to keep it that way. Work by a French-Portuguese-Canadian consortium to repair the Nacala railway was suspended when the participants said it was too dangerous and requested 2,000 troops to guard the line. The Limpopo corridor to Maputo from southern Zimbabwe, due to open shortly, needs a similar number of soldiers, as will the line of soon to be refurbished electricity pylons running from the Cahora Bassa dam to South Africa.

Mozambique's army of some 30,000 is neither big enough, good enough or rich enough to manage on its own, and the donors – led by Britain – are coming round to the idea that they need to supply military assistance to protect their economic aid. Meanwhile Zimbabwe's involvement in Mozambique is both expensive and frustrating for Zimbabwe (its railway workers and soldiers accuse their Mozambican counterparts of incompetence) and galling for the Mozambicans (who accuse the Zimbabweans of arrogance).

Progress overall on repairing Mozambique's transport infrastructure has been steady but slow. Protected convoys ply the road between Malawi and Zimbabwe through Tete. The road and rail links to South Africa and Swaziland are subject to periodic guerrilla attacks, and the railway from Tete to Beira has been closed by sabotage. The three main routes – Beira, Limpopo and Nacala – are in various stages of repair:

Beira Corridor: The 314km route from eastern Zimbabwe to the sea includes a railway, a road, and an oil pipeline and has so far been the focus of SADCC's efforts in Mozambique. A $660m 10-year programme is under way to restore the corridor. Last year the port handled about 2m tonnes, compared with a record 4.3m in 1965 but up from 1.4m in 1986.

Sabotage attacks on the route are down by two-thirds so far this year, but some rehabilitation projects at the port are more than 12 months behind schedule or have been poorly executed, constant dredging of the channel is a necessity, and the town still suffers from power cuts, water shortages and a lack of amenities. Ambitious predictions made for the Beira corridor in 1987 have since been scaled down, although it already handles about a third of Zimbabwe's overseas trade. A quarter of Zambia's copper exports are also using Beira.

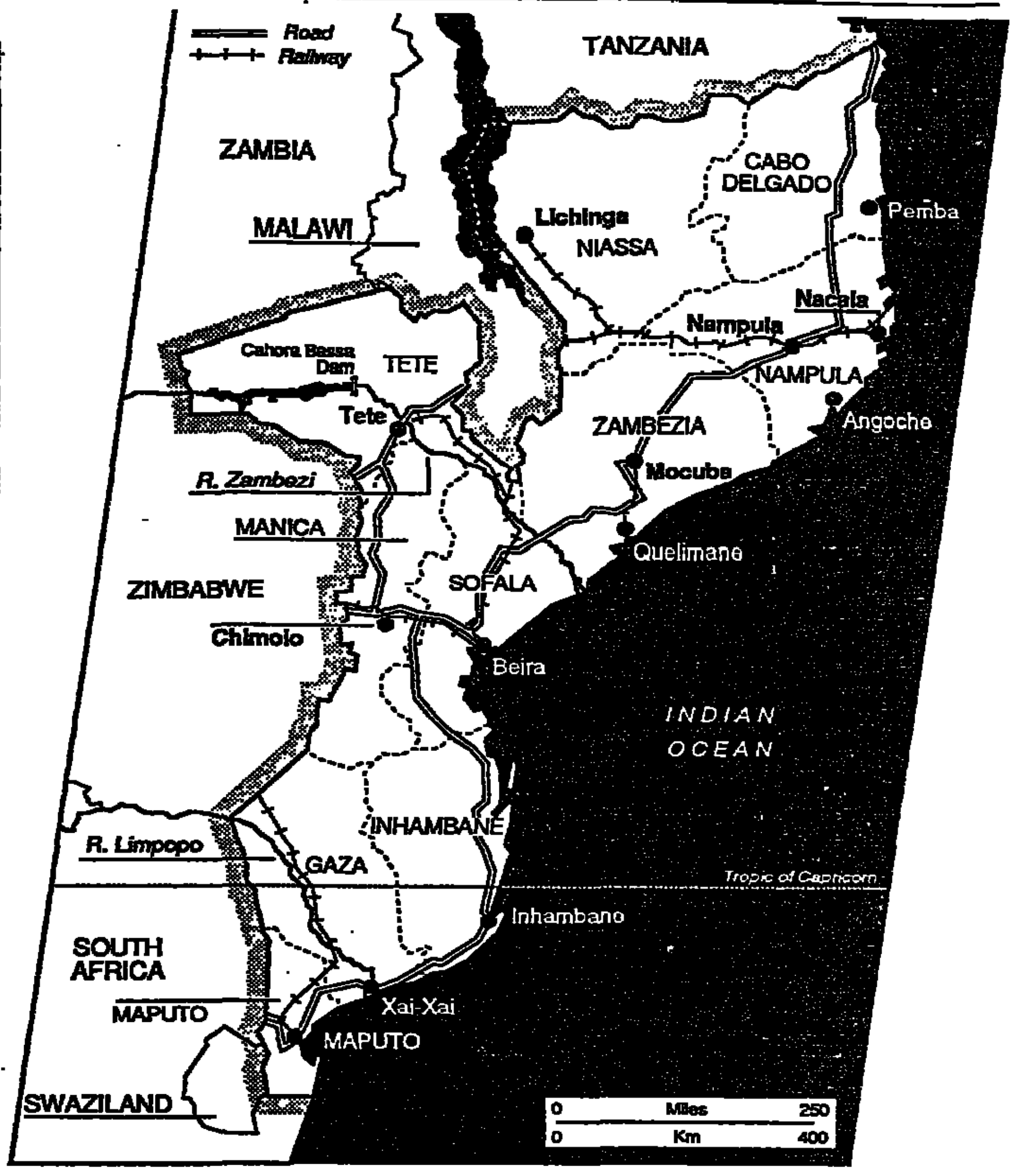
Limpopo Corridor: Attention is beginning to shift towards this line running from Zimbabwe to Maputo, where there is plenty of spare capacity at the port. An inspection train covered the entire distance in May.

Britain has already funded £14m of repair work and a further $200m is being sought, of which $60m was raised at a donors' meeting last month. At present the line – mostly straight and level in contrast to the Beira railway – could probably handle about 1m tonnes a year, rising to 3m as work progresses and assuming adequate security. More than 500km of the line is inside Mozambique and vulnerable to commando raids from nearby South Africa, but the terrain is relatively open and not favourable for guerrillas.

Nacala Corridor: Nacala, recently rehabilitated, is the region's best deep-water port, but it is lying idle except for the movement of some food aid and other local traffic for Nampula. Despite the efforts of Malawian troops and Mozambicans trained by a private British company, Defence Systems, rebel attacks have forced the suspension of the repair work on the railway and there is no through traffic.

In the meantime, Malawi is spending 40 per cent of its foreign exchange earnings on conducting its trade through distant South African ports.

Victor Mallet



Machaze: the everyday story of just another little town

Where surviving is the name of the game

ECONOMIC REFORM does not mean much in a place like Machaze, a small country town in the southern part of Manica Province.

By Mozambican standards Machaze, recaptured from the rebels seven years ago, has been doing quite well this year after a period of drought. Although there is insufficient food in the area, no-one appears to be starving. A few villagers have been killed or had their ears chopped off by the rebels, but most of the incidents date back several years ago. The inhabitants could probably walk 50km from the town these days without being attacked.

Here in Machaze there are signs of normal life which are completely absent from many other Mozambican settlements – a maize crop in the fields, wandering goats and chickens, a functioning water well, even a group of carpenters working in the shade of a tree.

But the idea that Machaze is in any way integrated into the rest of the Mozambican economy is an illusion. Vehicles and agricultural marketing all belong to the past. The inhabitants of Machaze are simply surviving, with a little help from the food airlifts of foreign donors.

Access is by aeroplane only. Throughout Mozambique roads are mined and bridges destroyed. Mr Virgilio Joao Nhansuo, the district administrator, says there has been no traffic between Machaze and the provincial capital Chimoio since 1984. That was the year the orphanage was set up for the children whose parents were killed in the conflict – 18 of them have yet to find homes.

"Despite the good rains there really isn't food for all the people because there has been a problem of lack of seeds," says Mr Nhanguo. "Some have food, others don't."

According to Mr Fungai Simbi Chinhacata, the local medical officer, about 40 per cent of the children in Machaze are malnourished. "We have a very serious problem with children with anaemia," he says outside his rudimentary clinic. "We're not sure whether it's parasites or malnutrition. Two died this month."

Medicines, inevitably, are in short supply.

Mr Chinhacata's own story is typical. His monthly salary is worth about $25. When he worked in Zambezia Province he suffered four ambushes (driving in an ambulance was no guarantee of safety); his wife, a nurse, was injured in the arm by a bullet; he himself lost all his belongings, burnt to ashes in one of the attacks, and his brother-in-law was killed.

The Mozambican countryside is dotted with government-held islands like Machaze. A few are better; some are much worse. In many of the town centres the once-pretty Portuguese architecture is pockmarked with bullets or close to collapse from lack of maintenance.

Factories, clinics and schools have been destroyed by the rebels. Amenities such as electricity, transport and telephones have long since disappeared. To reunite Mozambique into a network of viable farming communities will need a lot of money, and a lot of determination.

Victor Mallet

Tenacity in spite of adversity

Continued from Page 1

private enterprise and foreign investment and the need to reduce the role of the state, looking only momentarily nonplussed when asked how values endorsed by Mrs Thatcher can be reconciled with Mozambique's official socialist ethos.

"The fact that growing financial imbalances require that we reduce or abolish some price controls or subsidies, or that the gigantism of some state farms or enterprises requires their rationalisation is in no way incompatible with our desire to build a society where all benefit equally," explains Dr Machungo.

Given the pedigree of the reform process and the careful consultations and explanations that have marked each stage, there is no reason to believe that they are not deep-rooted and here to stay (notwithstanding the fact that some party officials may yearn for the days of Marxist orthodoxy).

The reforms, backed by aid running at some $800m annually, are bringing results, at least in the main towns where shops are better stocked (though at prices which are beyond most workers) and manufacturing and industry are picking up.

But the critical test is in the ravaged countryside, where the recovery in food production and export crops such as cashew nuts, tea, cotton, and sugar is either tentative or yet to get under way, and where the road and railway routes are vulnerable to sabotage.

It is in the rural areas that the military and economic battles are being fought, and the government has yet to emerge the winner.

PEOPLE'S REPUBLIC: THE KEY FACTS

Population	14.74m
Head of state	President Joaquim Alberto Chissano
Independence date	June 25 1975
Ruling party	the Frelimo Party
Surface area	799,380 sq km
Coastline	2,470 km
Neighbouring countries	Tanzania, Malawi, Zambia, Zimbabwe, Swaziland, South Africa
Capital	Maputo (formerly Lourenço Marques), population approx 1m
Provinces	Niassa, Cabo Delgado, Nampula, Zambezia Tete, Manica, Sofala, Gaza, Inhambane, Maputo
Official language	Portuguese
Exchange rate (August 2, 1988)	$1 = Meticais 584
Main imports	Agricultural and industrial semi-finished and petroleum products, spare parts, textiles, consumer goods
Main exports	Prawns, cashew nuts, cotton, tea, copra, citrus, textiles, tyres, coal, timber
Imports (1987 est)	$645m
Exports (1987 est)	$96m
GNP (per capita)	$272 (source: International Tourist Guide, 1986)
Population growth rate	2.6 per cent
Population distribution	Urban/rural: 13/87 per cent
Literacy rate (1986)	30 per cent

Agreement with Portugal and South Africa on Cahora Bassa

Better prospects for dam

A GUERRILLA target when Mozambique was under Portuguese rule, its power lines sabotaged in the 1980s by MNR rebels, the Cahora Bassa hydroelectric dam has so far proved a costly white elephant.

Efforts now under way to repair over 500 damaged pylons on the 850-mile route to an electricity station near Pretoria will test an apparent rapprochement between Mozambique and South Africa, the 2,075 MW project's main customer.

In June this year Portugal, South Africa and Mozambique signed an agreement designed to put the dam on an economic footing, provide for the power line's repair, and protect it from sabotage. Portugal, the owner of the scheme, has been carrying the $56m annual losses of Hidroelectrica de Cahora Bassa, and servicing a $1.2bn debt.

The improved financial prospects of the dam stem from South Africa's willingness to pay a higher tariff – 1.76 South African cents, compared with 1.1 cents under a 1984 agreement. The dam can provide 6 per cent of the republic's electricity needs.

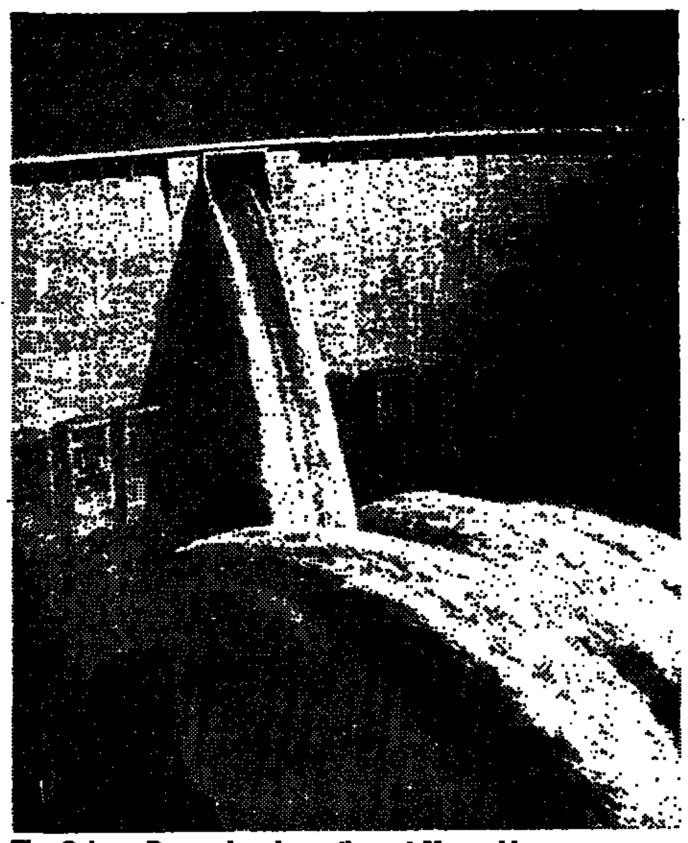
Although power began flowing in 1977, rebel sabotage of the pylons from 1982 onwards effectively put the project out of action.

The agreement also envisages a $26m repair programme, jointly funded by South Africa and Mozambique. Negotiations are under way for Defence Systems, a British security firm, to help train Mozambican army units, who will be responsible for protecting the power pylons on the 500-mile path from the dam, sited on the Zambezi River in Mozambique's northern pedicle.

Longer-term plans including drawing on Cahora Bassa power to help develop Mozambique's Niassa province and southern Malawi, as well as meet increasing demand in eastern Zimbabwe. There are also hopes that 145-mile-long lake could supply irrigation schemes in the surrounding countryside.

First, however, it has to be shown that the June agreement can be made to work.

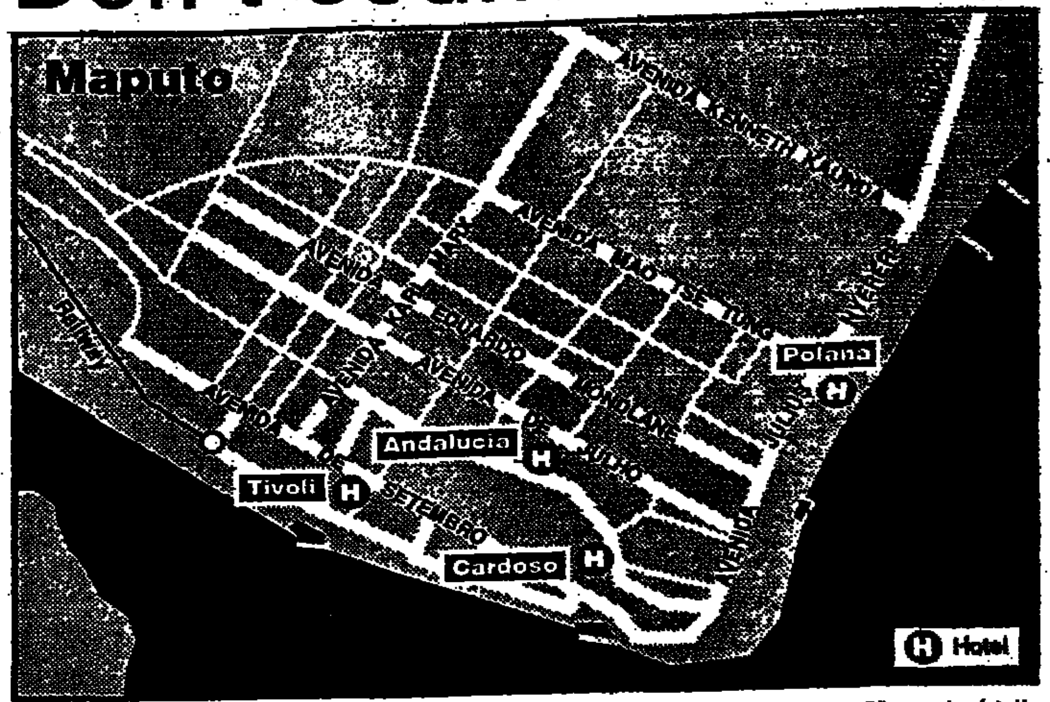
Michael Holman



The Cahora Bassa dam in north-west Mozambique

BUSINESSMAN'S GUIDE

Don't count on a taxi



I'd like to spend some time in Mozambique
The sunny sky is aqua-blue
And all the couples dancing cheek to cheek
It's very nice to stay a week or two
And maybe fall in love just me and you.

So sang a romantically inclined Bob Dylan in 1975, the year of Mozambican independence from Portugal. Much water has flowed under the country's broken bridges since then, and many of its inhabitants have been killed or maimed in the civil war. But in the midst of disaster Mozambicans have somehow preserved a charm and warmth rarely matched in Africa.

That is not to say that doing business in Mozambique is easy. State bureaucracy, buck-passing, inefficiency and shortages all contribute to the difficulties faced by the visitor.

Yet for foreigners and Mozambicans with money, the seaside capital of Maputo has improved considerably over the past two years of economic reform. Restaurants and a small band of taxis have reappeared, cafes now serve coffee, and shops and markets have something to sell. Beira, the second city, is also struggling towards a revival, although it is still a target for rebel attacks and plagued by power cuts and water shortages.

Expatriates are largely isolated from the war, flying from one secure town to another and so avoiding ambushes on the roads. They can buy a wealth of food and drink at the local *loja franca*, the foreign currency store, while a Mozambican farm labourer's monthly wage would barely buy him two large tubes of imported toothpaste. A few tips for visitors:

Airport: Most visitors require visas, which should be obtained from a Mozambique embassy (there is a new one opening in London) or through your business contact in Maputo. Mr Americo Magaia, president of the Mozambique Chamber of Commerce (tel Maputo 741970, tx 6498) says his organisation can also provide help and advice. On arrival at the airport, you must change the equivalent of $25 into meticais, the local currency. On departure, airport tax is $10. There are regular flights to and from Lisbon, Paris, Johannesburg, Harare and other centres, as well as daily shuttles to Swaziland and South Africa's eastern Transvaal.

Transport: Taxis are still few and far between, and you should arrange to be met at the airport. Cars can be hired in Maputo from Interfranca (tel 25199, tx 6403), which can have the car at the airport on your arrival. There are also plans to establish an Avis agency. LAM, the state airline, flies regularly to major provincial capitals, although flights are often full. Small aeroplanes are available for charter, and you can inquire at the TTA office in the airport. Regulations are being eased, but remember that you may need a permit from the authorities to travel out of the Maputo area.

Hotels: Polana/Polana Mar (tel 741001, tx 6278) offers old world charm and a magnificent site overlooking the Indian Ocean – ask for a sea-facing room. Other acceptable hotels are Andalucia (tel 23051, tx 6426), Cardoso (tel 741071, tx 6327), and Tivoli (tel 22005, tx 6297). In Beira, go to the Dom Carlos (tel 711158).

Health: Take malaria pills as advised by your doctor. The weather is particularly hot and sometimes wet between October and March. Bottled mineral water is available, and advisable outside Maputo.

Security: Crime is not a serious problem and streets are safe at night. But bear in mind that a hardened Mozambican may call a road safe if it has not been attacked for three weeks. Despite the war, the Mozambican security forces are remarkably relaxed, but you should still be cautious about taking photographs in sensitive areas. For instance, when you turn right from the Polana Hotel and walk along the Avenida Julius Nyerere, you must cross to the left-hand side of the road opposite the presidential palace and keep between the trees and the kerb, or risk an argument with an angry soldier. There are no signs to warn you of this.

Doing business: Although many Mozambicans in senior positions speak adequate English, it helps to speak Portuguese or to be accompanied by someone who can act as an interpreter. Protocol tends to be strictly observed and it can be difficult to get even a minor decision from a deputy if the person you want to see is away. Telephone calls within Maputo are relatively easy, but outgoing international calls may take some time. It is quicker to dial direct into Mozambique from abroad. Telex is reliable.

Leisure: Though its restaurants are generally mediocre, Mozambique is justly famous for its prawns. Seafood and a bottle of *vinho verde* are a safe bet. In Maputo the Andalucia and Cardoso hotels have good restaurants. Try also the Macaneta (at the Facim showground complex), the Costa do Sol, the Mini-Golf (need to book at weekends, tel 743382), and the Penha Palhota (all along the coast road).

The Taverna del Rei near the Polana offers Portuguese fado music, and there is Saturday jazz at the Topazio downtown. In Beira, try the Club Nautica (excellent crab) and the small restaurant near the airport hangars. For a pleasant weekend out of Maputo, you can charter a plane or go by boat to the hotel on Inhaca island.

Some useful numbers: Diplomatic missions: UK (tel 32140, tx 6265), US (tel 743167, tx 6143), West Germany (tel 742996, tx 6489), France (tel 743444, tx 6307), Italy (tel 741605, tx 6442), Portugal (tel 744142, tx 6341), UN (tel 744151, tx 6364), European Community (tel 744473, tx 6146), South African Trade Mission (tel 741404).

Ministries: Finance (tel 25071), Transport (tel 30121), Industry and Energy (tel 31029), Minerals (tel 29615), Commerce (tel 26091), Construction and Water (tel 26061), Agriculture (tel 21071), Co-operation (tel 742029), central bank (tel 28151).

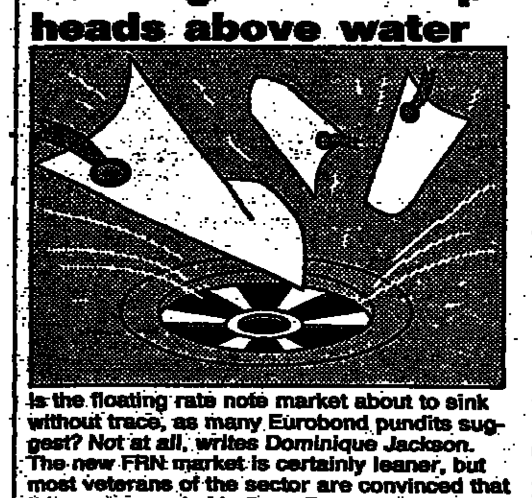
Others: GPIE – Foreign Investment Promotion Office (tel 742713, tx 6153), DHL (tel 34101), LAM (tel 732141).

Victor Mallet

FINANCIAL TIMES
COMPANIES & MARKETS
Monday August 15 1988

INSIDE

Floating notes keep heads above water

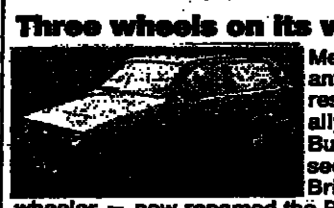


Is the floating rate note market about to sink without trace, as many Eurobond pundits suggest? Not at all, writes Dominique Jackson. The new FRN market is certainly leaner, but most veterans of the sector are convinced that it is now remarkably fitter. The dollar-denominated sector may face a supply crisis in the near future, but sterling issues are positively booming. Page 17

Diverging views on the worth of established brands

The debate over the value of established brands — stoked by this summer's fierce battle for the UK confectioner Rowntree — shows no sign of dying down. The willingness of the UK's Cadbury Schweppes to surrender its American business to Hershey of the US contrasts with Nestlé's determination to regain absolute control over the brands which its Carnation subsidiary, had leased or sold over the years. Back page

Three wheels on its wagon



Mention the Reliant Robin and the response is usually a loud guffaw. But odd as it may seem, this bizarre British three-wheeler — now renamed the Rialto — still comes off the production line of a factory in Tamworth, Staffordshire, at the rate of 50 a week. The market, however, is declining and the manufacturer is having to look elsewhere for tomorrow's profits. Richard Tomkins looks at Reliant Motor, a small company which enjoys the distinction of being the only car maker quoted on Britain's unlisted securities market. Page 19

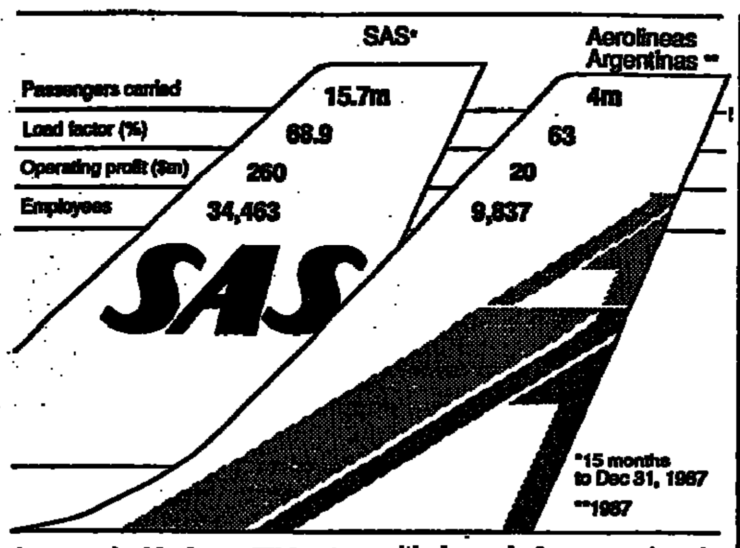
Market Statistics

Base lending rates	28	Foreign exchanges	28
European options exch	25	London recent issues	25
Base lending rates	28	London share service	24,25
FT-A world indices	26	Money markets	28
FT int bond service	18	World stock mkt indices	27
Weekly int. rate change	26	Unit trusts	20-23

Principal Companies Covered

American Stores	18	Mitsu. Petro	18
Canadian Tire	18	Parmalat	18
Corona	18	RKF Group	19
ENI	18	Reliant Motor	19
ICI	18	Sapragaz	18
Kraft	18	United Engineers	18
Lac Minerals	18	Universal Motors	19

SAS dares, but will it win?



Clay Harris and Gary Mead look at opposition to the sale of a minority stake in Argentina's state airline

MR Horacio Domingorena, president of Aerolineas Argentinas, yesterday strongly condemned the Argentine government's agreement to sell 40 per cent of the state-owned carrier to Scandinavian Airlines System. The figures given for the deal were "fictitious and incorrect," Mr Domingorena said, and the arrangement "prostituted the principle of privatisation."

A Government appointee, Mr Domingorena claimed that the Scandinavian airline was paying only $156m, not the $204m announced last week, and that it would be putting up only $20m of a $60m down-payment in cash. The duty-free shop alone at Buenos Aires' international airport is "worth more than that," he said.

Mr Domingorena's intervention underlines the grave doubts over whether the SAS-Aerolineas deal will actually get off the ground. For SAS, there are disturbing echoes of its unsuccessful effort last year to buy a minority stake in British Caledonian, the troubled UK airline.

Although Aerolineas operates in a peripheral market, SAS is attracted to the Argentine carrier for the same reason it was drawn to BCal: it will help the Scandinavian airline to prosper in a world of "mega-carriers" despite its sparsely populated home base on the Arctic fringe of Europe.

Mr Jan Carlzon, SAS president since 1981, is keen to put into practice this element of his blueprint for survival, minority holdings in partner airlines. He has been thwarted twice so far in Europe, but rivals are imitating his strategy as the pendulum swings away from state ownership of airlines.

British Airways, which frequently cited UK national interest grounds in its fight to thwart SAS's courtship of BCal, has lined up as a suitor for a holding in Air New Zealand — the state carrier for which privatisation plans are due to be announced shortly. Swissair has bought a 4 per cent stake in neighbouring Austrian Airlines, and other candidates for full or partial privatisation include Lan-Chile and Mexican Airlines.

The wide political span of governments now eager to introduce private money into state carriers demonstrates that the question transcends ideology. With airlines facing the expensive task of replacing ageing fleets, governments are loth to commit huge sums to enterprises which, in good years, make such slender returns. Stock markets do similar sums and put a lower valuation on airlines than do rival carriers looking for a strategic stake.

The prestige of owning the flag carrier, it seems, is no longer worth any price.

SAS's Argentine deal will be a critical test of this argument. Mr Domingorena's challenge to the sums may be the most telling. First Boston, on behalf of Aerolineas, valued the airline at $650m, whereas Morgan Guaranty for SAS priced it at $475m. World Bank officials came to a figure of $525m, although the two sides eventually agreed on $510m.

Mr Domingorena said yesterday that the Argentine side should have been handled by the Argentine National Development Bank. Mr Rodolfo Terragno, Minister for Public Works who is responsible for the deal, said Mr Domingorena should resign if he is not happy.

Mr Terragno argues that since Mr Domingorena signed a letter of intent at the beginning of the year, he should accept the terms. Mr Domingorena says no figures were included in the original letter, although he certainly appeared in favour of the general outline when he said in February that the link "could bring the benefits of economies of scale and a more global service to both companies."

Even before Mr Domingorena's intervention, the deal faced bitter criticism from the Peronist opposition - for which the carrier founded by General Juan Peron in 1950 is a proud national symbol — and from Aerolineas' domestic airline rival. The ruling Radical Party will be confronted with demands for concessions in policy areas far removed from airlines if it hopes to win the necessary approval in Congress.

Political opposition is likely to gather under the emotive banner of *vende patria* - selling the homeland — but just as serious is the feeling that the Government did not give Austral, Argentina's privately-owned domestic carrier, a fair shake in negotiations.

Last month, Cielos del Sur, an influential Argentine business with which Austral has close links, submitted a letter of interest in purchasing a stake in Aerolineas. It obtained the support of Alitalia and Swissair, and a rival bid seemed imminent, for perhaps 55 per cent of Aerolineas. Mr Terragno gave the letter short shrift and continued with the SAS negotiations.

Even more irksome for Austral, which spent seven years in the state sector after a financial rescue in 1980, is the fact that Buenos Aires has shown no signs of deregulating fares or allowing it to compete with Aerolineas internationally.

For SAS, the Argentine deal follows two unsuccessful efforts to forge alliances with European airlines. It has been in and out of merger talks with Belgium's Sabena for more than a year.

Last year, SAS tried to buy a stake in BCal when the financially troubled UK airline was seized with second thoughts about the wisdom of a takeover by the much larger British Airways. BCal was troubled by the depressed post-October price BA was willing to pay.

SAS successfully negotiated the Civil Aviation Authority's regulatory obstacle course, but BA's increased £250m bid won the day. SAS turned its attention to co-operation agreements with local carriers on other continents — the Scandinavian airline and its partners would share the long intercontinental routes between "hubs" from which each would operate co-ordinated "spokes" of regional service.

SAS already has such an agreement with Thai International and is looking for partners in North America. It has also held talks with Qantas about opening up routes in Australia where SAS does not have permission to fly.

Additional reporting by Sara Webb in Stockholm

Strong D-mark or weak, the glass looks half empty

Haig Simonian sees a German tendency to look on the dark side

A popular West German saying involves a partially filled tumbler and a judgment. The glass is either half full or half empty, say the Germans, depending on how you look at it. In the Federal Republic, it is usually thought to be half empty.

Tending to concentrate on the darker side of things may be a popular cliche about the German character, but recent attitudes towards the economy and the value of the D-mark have pointed to a growing ambivalence within the Federal Government and the Bundesbank when it comes to economic value judgments.

Take the Government first. Earlier this month, Mr Martin Bangemann, the economics minister, who is soon off to greener pastures at the European Commission in Brussels, expressed great satisfaction at the rate of German growth. Higher than expected industrial production figures for June meant that West German gross national product was likely to grow between 2.5 per cent and 3 per cent this year.

That is a far cry from the much lower predictions being bandied about late last year, when some analysts were talking of growth that would be lucky to exceed 1 per cent. Even now there are some doubts about the longer-term outlook. According to the Organisation for Economic Co-operation and Development, growth is set to slow to 1.75 per cent next year. The Government has yet to publish its own forecast.

The recent upbeat economic statistics have certainly come as welcome relief for a Government which has for months been battening down the hatches against a constant barrage of foreign pressure to perk up its domestic economy. Germany's trade surplus remains too high, said its critics, usually in Washington, while the domestic economy was barely chugging along.

The 2 per cent rise in the seasonally-adjusted figure for industrial production for June certainly provided handy ammunition for Bonn. But a string of recent economic statistics have been going the Government's way, bolstered in the past month by some remarkably bullish half-year figures from some of Germany's blue chip companies.

Both Siemens and Hoechst reported much higher than expected earnings, while results from the country's banks have shown a surprising expansion in domestic lending. Demand for medium-and-longer term credit from both private and business customers has perked up sharply, as investment decisions, previously postponed, are being put into action. Corporate Germany appears to be changing gear.

Hence the appreciably smugger looks in Bonn in response to foreign critics, whose focus, it must be admitted, has now shifted more to 1989 than this year. From Bonn's point of view, the tumbler showing Germany's economic performance is at least half full, if not brimming.

Last Thursday Mr Gerhard Stoltenberg, the embattled finance minister, who is now almost audibly sighing with relief after a very trying period politically, further rallied to the defence. Better than expected economic growth means the Government is now expecting its tax income to be DM2.5bn ($1.3bn) to DM4bn above plan, he said with confidence.

Foreigners hoping for the overshoot to be ploughed back into stimulating the domestic economy were in for a disappointment, however. The higher revenues were gratifying, but not enough for the Government to reconsider its range of consumer tax increases next year, said Mr Stoltenberg. The money would be used to cut next year's budget deficit instead.

Gerhard Stoltenberg: Remarks on dollar produced swift reaction

Yet despite the new-found confidence in Bonn, there is a joker in the pack. For when it comes to the value of the D-mark against the dollar, the old German habit of seeing the more pessimistic side of things rings as true as ever. Moreover, it applies as strongly to the Bundesbank as to the Federal Government.

Throughout the closing months of last year, one phrase — *die Schmerzgrenze* — hogged all headlines. The "pain threshold" for German companies — where the rising D-mark starts to bite into export profitability and gradually spill over into the domestic economy — was becoming more acute daily, we were told. Confidence reached rock bottom when the dollar briefly plunged to DM1.58 at the end of 1987.

That seems like history now, with the dollar testing — and briefly breaching — DM1.92 last week. For suddenly, it is not the weak dollar, but the strong one, which has become a problem for the Germans.

Few have expressed that attitude better than the Bundesbank, whose step-by-step rises in key interest rates reflect a growing concern with inflation. Prices may only be rising by about 1 per cent at present, but that is quite enough to spark the concern of the guardians of the country's monetary stability. Inflationary expectations are heading up, they say, and must be nipped in the bud. Thus the D-mark must not be allowed to fall any further against the dollar.

The whole debate in the central bank about the value of the currency strikes an odd chord with last year's discussion about the German equity market and, particularly, how to make shares more attractive to German private investors.

In the months leading up to October's crash, a variety of German pundits, not least Mr Karl Otto Pöhl, the Bundesbank president, were exhorting wealthy Germans to invest in shares to enliven the stock market and further the development of Finanzplatz Deutschland — Germany as a financial centre.

But in a speech shortly after the crash, Mr Pöhl was suddenly drawing comfort among his audience from the fact that so few German families owned equities — in contrast to the US and UK. And German shareholders tended to be among the wealthier strata of society, which could best weather the storm. So anxiety about a swift economic downturn after the crash was misplaced, he argued.

Now it is the value of the D-mark which is undergoing the same intellectual mangling from West Germany's leaders. The currency is now too weak, we are told. Mr Stoltenberg's remarks on Thursday that a dollar above DM1.90 could cause "problems" produced a speedy reaction in the markets. The dollar sank from DM1.92 to DM1.89 with an alacrity which even the Japanese, would admire.

What Mr Stoltenberg, and others concerned about inflation, have not dwelt on is that it is precisely the weaker D-mark — along, of course, with traditional advantages like good products and record for reliability and service — which has been helping German companies to report such good results.

The Government may be more relaxed about the outlook for the economy, but when it comes to the value of the D-mark, it seems no one is ever satisfied. A strong D-mark is a bad thing; but then so is a weak one. Perhaps there is no level for the West German currency which can be deemed acceptable. But then again, this is Germany, and that tumbler always tends to be half empty.

UK GILTS

Assessing summer's handiwork

By Simon Holberton

THE gilt-edged securities market had more to absorb last week than for a very long time. Buffeted between international and domestic events, the market came through it all surprisingly strongly.

The important thing it now has to consider is the likely course of short-term interest rates in the UK.

Some hints are given in the Bank of England's Quarterly Bulletin.

For the time being, the current level of rates seems likely to prevail. For the Bank, the setting of interest rates is a question of balancing what has already been done with what it sees happening on the inflation front in the medium-term.

It follows then that any unexpected trend deterioration from that path will be met by higher interest rates. Its focus is predominately, but not wholly, domestic.

The Bank is now in the position of waiting for the economy to show signs of slowing.

It will probably take between two to three months for the official statistics begin to show what effect, if any, of the summer's tightening in interest rates.

The Bank will therefore be relying more on indications of sentiment, such as Confederation of British Industry surveys and its own soundings of industry throughout the country for a guide to the effects of its summer handiwork.

It admits that this is less than optimal and that a degree of uncertainty clouds the outlook, but it believes rates are in the ballpark and hopes that enough has been done.

On domestic grounds, therefore, higher interest rates cannot be ruled out.

This is also true for external reasons. The Bank cannot be indifferent to a worldwide tightening in monetary policy if it leads to sterling weakness.

Given the reaction of the dollar last week to the Fed's decision to increase the discount rate to 6½ per cent and a further tightening in Fed funds, the Bank seems to have no short-term problem with sterling.

The big test may come if this week's US trade figures are seen as good for the dollar.

There are also signs that the Bundesbank might again be moving to tighten; this could happen as early as this week or around August 25 when the bank's board meets.

The Bank dropped an exchange rate clue in the Bulletin by its reference to the value of sterling as measured by the trade-weighted index.

Unlike the May Bulletin, which specifically mentioned the D-mark, the Bank this time highlighted only the index.

While it is unlikely that 76.5 on the index is a target for the exchange rate, clearly movements measurable in full percentage points either side of that may well point to a policy response.

Perhaps the most interesting thing to come out of the Bulletin was the Bank's comment on the need for the growth in domestic demand to be below Britain's potential rate of growth.

An economy's potential growth rate is the sum of the growth in productivity and the growth in the labour force.

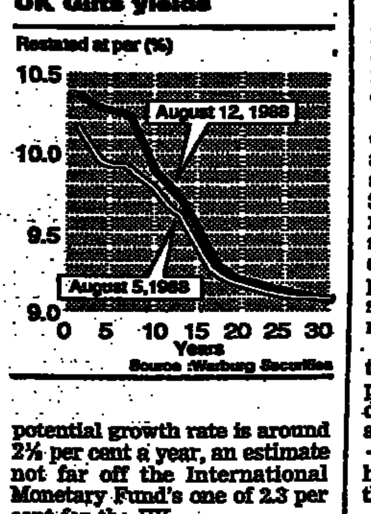
Throughout the 1980s productivity for the whole economy is estimated by the Treasury to have been 2 per cent a year.

At the same time the workforce has grown by about ½ a per cent a year.

This suggests that Britain's potential growth rate is around 2½ per cent a year, an estimate not far off the International Monetary Fund's one of 2.3 per cent for the UK.

UK Gilts yields

Restated at par (%)



Source :Warburg Securities

Looking into the future a little, Department of Employment projections for the growth in the workforce suggest it will slow by the end of this decade to around ¼ per cent a year so, assuming constant productivity for the whole economy, Britain's productive potential should be around 2¼ per cent a year in the early 1990s.

The Bank believes the UK's potential growth rate to be around 3 per cent for the whole economy.

That is a huge difference from the current estimated potential growth rate and from the projected one.

As the growth in the workforce slows from 1989 the only way for the Bank to arrive at the 3 per cent figure is for it to assume a much higher rate growth in productivity, especially services, than the UK has thus far enjoyed over the course this decade. Has the boom in investment done that much for Britain?

THIS WEEK

US TRADE figures published tomorrow are set to be the focus of attention in world financial markets this week and could determine the short-term course of the dollar.

The size of the deficit may encourage speculation about possible US interest rate moves and should provide an indicator of the strength of demand within the economy.

The MMS International consensus of forecasts is for a deficit of $11bn in June, seasonally adjusted, against $10.9bn in May. A larger deficit may undermine the recent strength of the dollar but it could return to an upward path if the US Federal Reserve seeks further rises in interest rates.

Financial markets will also take note of US industrial production figures for July, due today. The MMS consensus suggests a rise of 0.5 per cent — more than in June and highlighting the strength of the economy.

The Republican National Convention, which starts today, may provide some pointers for future US economic policy in the event of a Republican victory.

In the UK, a series of statistics published this week will be analysed for signs of a possible upswing in inflation and indications as to whether the Government will decide a further increase in interest rates is needed.

The Retail Price Index for July is published on Friday. The MMS consensus points to a rise of 0.1 per cent taking the annual rate to 4.8 per cent. That compares with 4.6 per cent in June.

The figures will be proceeded by provisional money supply figures for July, released on Thursday. A large rise in bank and building society lending is expected, partly due to the rush for mortgages ahead of tax changes. The MMS consensus points to a £8bn ($13.5bn) rise compared with £8.5bn in June.

Statistics for the underlying growth rate for average earnings in June, released on Thursday by the Department of Employment, are thought likely to rise to 8.75 per cent

In Japan, money supply and wholesale price index figures for July will be published on Tuesday. The money supply figures (M2 plus Certificates of Deposits) are expect to show double digit growth continuing, but analysts will be paying more attention to the wholesale price index.

If the index movement continues to be downward, as expected, then markets will remain calm. However, a move upwards might worry investors that the Bank of Japan will consider raising its official discount rate.

In France, the consumer price inflation figures are expected to be published sometime this week. French money markets were stretched last week as banks sought to meet their obligatory reserve requirements. Bankers do not expect short-term interest rates to rise this week when the Bank of France holds a money market tender tomorrow.

Other figures due for release this week (with the MMS consensus in brackets) include:

Today UK industrial output for June (+0.2 per cent) and retail sales for July (+0.5 per cent)

Tuesday UK Public Sector Borrowing Requirement (-£300m). US capacity utilisation in industry in July (83.4 per cent)

Wednesday US housing starts and building permits in July.

Thursday Provisional estimates of UK money supply in July. UK unemployment in July (fall of 35,000, seasonally-adjusted). UK manufacturers and distributors stocks and capital expenditure by manufacturing and service industries in three months to June.

Friday US federal budget figures for July ($22bn deficit).

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Wall Street braces itself for more interest rate rises

BELIEVING last week's dramatic discount rate increase will prove inadequate for the task of cooling down the US economy, Wall Street is bracing itself for further increases in interest rates as the Federal Reserve tries to get a grip on inflation.

The Fed's policy-making open market committee could decide at its meeting tomorrow that additional tightening of monetary policy was justified immediately by more signs of inflationary pressures in the economy.

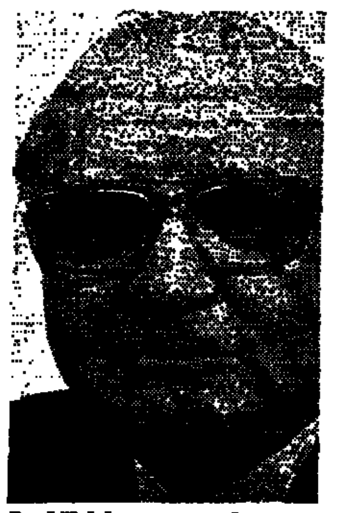
Next to nobody, though, expects the Fed to use the sledgehammer tactic of raising its discount rate again soon. Last Tuesday's increase by half a percentage point to 6.50 per cent, the first in nearly a year, sufficiently impressed on Wall Street the Fed's resolve to fight inflation.

A wholly unexpected move, it was, however, no match for the problem. Salomon Brothers' fixed income economists said at the weekend: "Evidence of substantial third-quarter economic momentum – generated by hefty job and income growth and relatively lean inventories – along with increasingly tangible pricing pressures suggest that further tightening is inevitable."

The central bank will use instead the more subtle tactic of raising the Fed funds rate at which banks lend reserves to each other.

Many economists believe the Fed will push it up to 9 per cent or more by the end of the year from just over 8 per cent on Friday and around 7.75 per cent before the discount rate increase.

Other rates will follow suit with, for example, the yield on 30-year Treasury bonds rising to a peak of around 10 per cent or 10.25 per cent.



Paul Volcker: prepared markets for change

This would virtually match the spike which helped trigger last October's stock market crash. Thankfully, though, many other economic and psychological factors are different this time so a shocking replay is unlikely.

The painful adjustment to higher rates began with a jolt last week when long bond prices dropped three points, their largest fall in a week so far this year, as yields rose some 30 basis points to 9.42 per cent.

Further price falls are likely this week as more data on the robust economy are released by the Government.

Most crucially, today's figures for industrial production and tomorrow's for capacity utilisation will show sharp increases in July.

The latter figure is likely to make the market jittery because it is rapidly approaching 85 per cent, widely considered an "inflation flash point," according to Mr Philip Braverman, chief economist of Irving Securities.

These figures and others forcefully demonstrate the scale of the policy problem confronting the Fed. Mr Alan Greenspan, the Fed chairman, recently told Congress that the US economy could grow by around 2 per cent or 2.5 per cent this year without stimulating inflation.

Yet data pouring in is showing an economy trundling along at an annual rate of between 3.5 per cent and 4 per cent in the third quarter.

In retrospect, the Fed has appeared complacent in recent months, believing there was evidence that the economy was about to slow down on its own accord.

Wall Street markets, perhaps lulled by the Fed's reassuring words, drifted desultorily.

In the last 10 days or so, though, Fed governors and presidents of its reserve banks were suddenly shocked by contrary indications. On a formal level was the creation of 815,000 jobs in June and July. Less formal was a barrage of anecdotal evidence from around the country of imminent labour shortages.

Peoria, Illinois, for example has swung in just three years from high unemployment to a labour scarcity thanks to the textbook turnround of Caterpillar Tractor, its largest employer.

Alan Greenspan: every country for itself

Now disturbed by the economy's strength, the Fed bumped up the discount rate on Tuesday. Wall Street warmly applauded it as necessary medicine and a sign that the Fed was exerting its independence over politicians in an election year.

Given that the inflationary pressures are not great, a further steady rise in interest rates should begin to cool off the economy by the turn of the year.

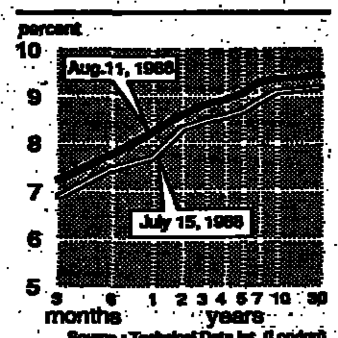
With luck and good judgment, the Fed might avoid a recession and achieve instead a "soft landing" at an non-inflationary growth rate, believes Mr David Jones, chief economist of Aubrey Lanston, primary bond dealers.

Criticism of the Fed began to surface in some quarters by the end of the week, though, after Wall Street had had a chance to reflect on recent history. Three main gripes were the Fed's earlier softly-softly policy approach, its timing and its failure to signal its intentions to the markets.

Why had not the Fed acted two business days earlier when July's shocking employment data were released rather than hours before the Treasury began its quarterly refunding auctions?

Many market players are now nervous about being wrong-footed again to their loss by a sudden Fed policy move. They remember wistfully the care Mr Greenspan's predecessor, Mr Paul Volcker, took to prepare markets for change.

US Treasury yields



Source: Technical Data Int. (London)

Equally miffed must be Mr Greenspan's colleagues abroad. It seems the US gave the rest of the Group of Seven little or no warning of the discount rate increase even though it was likely to further strengthen the dollar.

In the event, the dollar weakened when foreign exchange markets believed that higher interest rates were a global trend triggered by the US action. West Germany and particularly Japan are unhappy with the idea that US efforts to tackle its own domestic problems are creating ones for them as well.

It remains to be seen whether this will usher in a period of friction between members of the Group of Seven only months after they expressed at the Toronto summit high satisfaction with their co-operation.

But perhaps the countries now have more scope to focus in a more independent fashion on their domestic concerns, Mr Jones said. "Increasingly it looks like every country for itself."

Such an attitude would suit the Greenspan Fed which "is considerably more domestically oriented than the Volcker Fed," Mr Jones added.

Mr Greenspan is philosophically more attuned to "keeping his ducks in a row at home and then letting market forces determine the dollar."

Roderick Oram

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	7.95	7.78	7.69	7.95	5.98
Three-month Treasury bills	7.22	6.92	7.72	7.24	5.14
Six-month Treasury bills	7.82	7.25	7.06	8.04	5.74
Three-month prime CDs	8.50	8.18	8.00	8.58	5.88
30-day Commercial Paper	8.20	7.85	7.80	8.20	5.75
90-day Commercial Paper	8.30	8.00	7.85	8.30	5.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	98⅝	-1⅝	9.21	8.96	8.91
20-year Treasury	99⅞	-2⅛	9.45	9.21	9.22
30-year Treasury	97	-3	9.42	9.13	9.14
New 10-year "A" Financial	n/a	n/a	10.18	9.90	10.05
New "AA" Long utility	n/a	n/a	10.48	10.20	10.20
New "AA" Long industrial	n/a	n/a	10.43	10.15	10.15

Money supply: In the week ended August 1 M1 rose $2.5bn to $784.4bn

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 11/8/88	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	142.93	4.91	143.88	143.68	142.40
Government Bonds	142.68	4.72	144.19	144.31	142.94
Municipal Bonds	145.28	5.08	145.84	145.20	144.26
Govt.-guaranteed Bonds	146.98	5.04	147.35	146.71	145.67
Bank Debentures	137.19	4.87	137.84	137.74	136.72
Corporate Bonds	144.19	5.46	144.40	143.58	141.67
Yen-denom. Foreign Bonds	146.68	6.36	146.49	144.45	143.85
Government 10-year†	5.31	–	5.16	5.04	4.84

† Estimated par yield

Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABN BANK 8½ 91	150	98½	-½	9.32
AETNA LIFE & CAS 7⅞ 16	200	93½	-1	8.37
ANFC O/S.FIN. 11½ 94	100	101⅞	-⅝	11.41
A.I.D.C. 11 89	75	100⅞	-⅛	9.76
ALBERTA 7½ 91	750	94⅛	-1	9.24
ALCOA AUSTRALIA 11 92	80	101⅞	0	10.64
AUSTRALIA 11¼ 90	100	103⅛	-⅛	9.57
AUSTRALIA 11¾ 00	100	107⅞	-1⅛	10.09
AUSTRIA 7½ 97	200	87⅞	-1⅛	9.95
AUSTRIA 8½ 90	250	98⅞	-⅞	9.02
BANK OF TOKYO 8⅞ 96	100	91⅞	-1⅛	10.06
BANK OF TOKYO 11 90	125	102⅞	-⅛	9.49
BANK OF TOKYO 11⅞ 90	100	104⅛	-⅛	9.45
BANK OF TOKYO 13⅞ 89	100	104⅛	-⅛	9.24
BARCLAYS JERSEY 10⅞ 90	250	101⅛	-⅛	9.44
BARCLAYS JERSEY 10⅞ 95	250	105⅛	-1⅛	9.95
BELGIUM 7½ 91	250	94⅞	-⅞	9.50
BELGIUM 7⅞ 92	300	95⅞	-⅞	9.53
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ONTARIO HYDRO 11⅞ 90	200	104⅞	-½	9.24
ONTARIO HYDRO 13½ 91	100	108⅛	-1	9.37
ONTARIO HYDRO 14⅞ 89	150	103⅞	-⅛	9.42
ONTARIO HYDRO 15 92	150	117⅞	-1	9.49
OSTER KONTROLLBANK 8⅞ 93	200	94⅞	-1⅛	9.59
OSTER KONTROLLBANK 9⅞ 92	200	99	-2	9.38
PACIFIC GAS & ELEC 12 00	75	108⅞	-½	10.68
PENNEY J.C. 12⅞ 91	100	104	-½	11.13
PEPSICO INC 7⅞ 93	200	92⅞	-1⅛	9.42
PEPSICO CAPITAL 8⅞ 91	100	98	-⅛	9.25
PETRO-CANADA 7⅞ 96	200	86⅞	-1⅛	9.86
PHILIP MORRIS 9⅞ 98	200	98⅛	-⅛	10.17
POSTIPANKKI 11⅞ 90	75	102⅞	-⅛	9.57
PROCTER & GAMBLE 10 95	150	101⅛	-1⅛	9.74
PRU.RLTY SECS. 0 99	365	36	-⅛	10.31
QANTAS AIRWAYS 8⅞ 96	97	92⅞	-1⅛	10.02

	Issued	Bid price	Chg on week	Yield
QUEBEC PROV 13 90	150	106⅛	-⅛	9.76
QUEENSLAND GOVT 11⅞ 89	100	102⅛	-⅛	9.45
RALSTON PURINA 11⅞ 95	150	105⅞	-⅛	10.53
REYNOLDS R.J. 10⅞ 93	100	101⅞	-1	9.87
RICHARDSON-VICKS 11½ 95	125	104⅞	-⅛	10.33
ROCKWELL INT 9⅞ 90	200	100⅛	-⅛	9.40
S.A.S.10⅛ 95	150	100⅞	-1⅛	10.04
S.N.C.F. 7⅞ 94	175	89⅞	-1⅛	9.72
SASKATCHEWAN 7 91	125	95⅛	-⅛	9.39
SASKATCHEWAN 8⅞ 91	150	99	-⅛	8.91
SASKATCHEWAN 11⅞ 89	100	102⅞	-½	9.54
SASKATCHEWAN 15 92	150	117⅞	-1⅛	9.58
[illegible]				

CONVERTIBLE BONDS				
[illegible]				
BOND FINANCE 6 90 £	125	104⅞	-⅛	0.00
CANON 3 00	100	235⅞	+13⅛	-3.05
EASTMAN KODAK 6⅞ 01	300	102⅞	-1⅛	19.90
ELDERS UK 5 97	75	113	-1	-11.37
FUJITSU 3 99	200	283⅞	+10⅛	-2.87
GIBRALTAR SAVINGS 7½ 06	100	42⅞	-⅛	137.92
GRACE (WR) 6⅛ 02	150	83⅞	-1⅛	41.46
GRAND MET 6⅛ 02	100	89⅞	+1½	19.25
INTL PAPER 5⅞ 02	200	85⅞	-2⅞	31.92
LTCB 1⅞ 02	200	106⅞	-2	0.46
MCA 5⅞ 02	300	88⅞	-⅛	30.98
MITSUBISHI BK 2⅞ 02	300	109⅞	-2⅞	-2.85
NEWMONT MINING 7 01	100	108	-2⅛	19.12
NIPPON ELECTRIC 2⅞ 00	150	329⅞	+6⅞	0.66
NISHI NIPPON 2⅞ 03	70	115⅞	-⅛	-0.68
ROCKEFELLER CENTER 0 00	952	28⅞	0	-67.95

	Issued	Bid price	Chg on week	Yield
SANWA BANK 1⅞ 02	300	95⅞	+⅛	1.47
SOUTHWEST AIRLINES 6⅞ 98	35	77	-1⅛	81.48
TEXACO CAPITAL 11⅞ 94	500	106⅞	-⅛	16.26

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALLIED SIGNAL 6⅞ 93	20.00N	104⅛	-⅛	5.64
AVON CAPITAL 6⅞ 91	26.00N	102⅞	-⅛	5.81
BARCLAYS O/S INV 6 96	40.00N	101⅛	-⅛	5.81
B.F.C.E. 5⅞ 96	20.00N	100⅞	-⅛	5.67
CANADIAN PACIFIC 6⅞ 96	10.00N	105⅞	-⅛	5.81
[illegible]				

WARRANTS	Expiry Date	Bid price	Chg on week	Yield
AVON CAPITAL 9 93	09/04/89	4	0	8.87
CREDIT SUISSE PAN 11⅞ 92	13/02/92	50	-5	9.94
DEN NORSKE CREDIT 8 94	02/03/90	2	-1	7.94
DEN NORSKE CREDIT 8⅞ 96	08/08/89	2	-1	8.21
DENMARK 12⅞ 92	31/01/90	70	-10	10.19
FINNISH EXP CREDIT 12⅞ 91	21/11/89	75	-5	9.91
GEN ELEC CRED 9½ 92 B	17/12/92	10⅛	-⅛	9.18
GMAC 8⅞ 95 B	11/02/91	12½	-1½	8.47
HEINZ H.J. 7½ 96	01/10/90	3	-2	7.44
MITSUBISHI FIN 12⅞ 91	08/11/89	65	-5	10.13
NORDIC INV BANK 7⅞ 96	30/10/91	4	0	7.80
ROYAL BK CANADA	28/01/90	60⅛	-9½	10.28
WESTPAC BANKING 12⅞ 92	31/01/90	65	-5	10.47

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on AUGUST 12.

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Behind the scenes business in summer

THE USUAL summer torpor descended on much of the international loans market last week, with proof of the market's calm evidenced by the unusual occurrence of Japanese bankers preparing for vacation.

Nevertheless, there is an unusual amount of corporate business going on behind the scenes in banks in London and there was activity also in Asia.

As the Industrial Finance Corporation of India completed one deal last week, signing a $100m loan with a group of banks led by Swiss Bank Corporation Investment banking, state-owned Air India invited bids to arrange a $275m loan to buy two 747-300 cargo and passenger combination aircraft.

The airline would apparently allow banks to arrange leasing of at least one aircraft. Bids must be submitted by August 31.

The IFCI financing was split into two equal parts, the first with a final maturity of 10 years and a grace period of four years, and the second with a seven-year maturity with a three-year grace period. It carries an interest margin of 18¾ basis points over London interbank offered rates for the first two years and 25 basis points over Libor for the remainder.

Still in Asia, Malaysia was said to be seeking bids from banks for a $300m, 10-year loan.

Bank of America has been awarded a mandate for a Y12.5bn, five-year Euroyen financing, to be secured on four Boeing-747 freighters, by Los Angeles-based Flying Tigers.

In the UK, Davy Corporation signed a £60m multiple option facility, of which £40m is committed, jointly arranged by Barclays de Zoete Wedd and National Westminster Bank. BZW was separately said to have been awarded a mandate for a £200m, five-year financing, £100m of which is to be committed, for S&W Berisford, the commodities and financial services group.

SG Warburg arranged a £47.6m facility to finance the management buyout of York Trailers. The borrowing vehicle is Ingleby (292) which is borrowing £27.6m over seven years, £18m of which is a term loan, £4.1m a deferred consideration guarantee and £5.5m a revolving credit. It carries a 1¼ per cent margin, falling to 1 per cent depending on gearing, with a commitment fee of ½ per cent. Its rentals subsidiary, United Rentals, is borrowing a £20m revolving credit, with repayments beginning in year two, and carrying a 1¼ margin with a commitment fee of ⅜ per cent.

Proving deals associated with UK mortgage companies do not always go badly, Midland Montagu's syndication of a £100m facility for Mortgage Funding Corp is already up to £150m in general syndication and will be increased. Montagu's deal for FMS Number 2, was raised to £107.5m from £100m.

A loan arranged by Manufacturers Hanover for Central-European International Bank, a dollar-based offshore bank established in Budapest and owned by the National Bank of Hungary and a group of international banks, was raised to $50m from $40m.

In the commercial paper markets, Merrill Lynch International arranged a $500m Eurocommercial paper programme for Gaz de France, the latest state-owned issuer to enter the market. Issuance is expected to start in September 1988 and Citicorp Investment Bank is the other dealer.

Merrill Lynch also arranged a $100m ECP programme for Enserch, the energy, engineering and construction company.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,517.6	143.7	0.0	8,834.2
Prev	897.7	362.3	482.0	9,027.4
Other	718.5	193.4	144.7	1,047.4
Prev	1,069.1	1,267.8	284.0	1,053.2
Secondary Market				
US$	12,747.6	1,311.7	7,731.7	6,206.9
Prev	18,634.5	1,366.3	5,105.4	5,624.8
Other	14,012.0	1,009.9	2,512.1	17,718.0
Prev	14,445.9	1,918.3	4,101.7	15,958.3

	Cedel	Euroclear	Total
US$	9,057.8	29,435.6	38,493.4
Prev	11,921.3	29,579.1	41,500.4
Other	17,440.5	19,915.5	37,356.0
Prev	19,243.3	20,855.0	40,098.3

Week to August 11, 1988 Source: AIBD

INTERNATIONAL BONDS

Floating rate note market keep its head above water

AS THE CLOUDS of accelerating inflation and rising interest rates settle over international fixed-income markets, suggestions surface that the floating rate note market, once the most buoyant sector of Eurobonds, is about to sink without trace.

However, the suggestions do not bear close examination – the new FRN market is certainly leaner but most sector veterans are convinced that it is now markedly fitter. Although the US dollar-denominated chunk of the market appears on course to hit somewhat of a supply crisis in the not too distant future, the market in sterling FRNs, once dismissed as a cottage industry among conglomerates, is positively booming.

Cries of despair over dollar FRN supply reached a high pitch recently with the news that the UK was exercising the first available call option on its $2.5bn floater issued in 1985 and due in 1992. Although the move had been well anticipated, the issue was a popular and fairly liquid one and its redemption is expected to leave a discernible gap in the sovereign borrower sector of the market. The announcement prompted a swift switch to several other sovereign issues with the benchmark $4bn UK FRN due 1996 – known as the "new" issue among a handful which firmed markedly.

Dealers were soon poring over their books to check the first available call dates on similar issues. Most sovereign borrowers who chose to call an FRN would currently be able to refinance at much more attractive rates by issuing fixed-rate paper and subsequently swapping the proceeds into floating rate funds. Over the last few years, the growing sophistication of swaps and other behind-the-scenes financial engineering has meant that the floating rate note market is no longer the most efficient place to raise funds.

Sovereign borrowers with dollar FRNs which could be redeemed early in the next 12 months include Sweden, Italy, New Zealand, Ireland and Belgium.

With no prospective new issues in sight, this drying up of supply is bound to contribute to a further tightening of spreads. Spreads have narrowed markedly in the last few weeks as investors concerned about spiralling rates on the fixed-rate side of the market switched back into floaters, many for the first time since the market experienced a breakdown of liquidity and trading practices in the spring of last year.

Dealers reported brisk demand for outstanding sovereign issues, with the "new" UK FRN currently trading at around 40 basis points below the London interbank offered rate.

According to sector specialists, the FRN market to which investors are returning differs substantially from the over-crowded and over-traded sector from which they fled. For one thing, the market has shrunk, largely through a "survival of the fittest" procedure, to a far more rational and civilised size. Around 50 or 60 issues are now genuinely liquid compared with a number in excess of 200 when the market was at its peak in 1985 and 1986. The number of market makers has also fallen by around half.

Turnover is down but is now more balanced with more genuine retail participation seen. The character of the business has also changed with many houses working hard on arranging deals in some of the less actively traded areas such as the second-line sovereign issuers, subordinated bank paper or perpetual issues. Although this can take time and does not generate immediate or substantial gains, it does contribute steady profit at a time when houses are becoming increasingly conscious of margins.

In sharp contrast to this subdued and sedate modus operandi, the sterling-denominated FRN market seems to be undergoing a phase of dynamic and seemingly unstoppable growth. Dealers had their busiest period for some time last week as foreign investors piled into sterling floaters to take advantage of the relatively high yields.

Interest was detected from the Far East and the US while dealers also noted several German institutions selling D-Mark positions and switching into sterling FRNs, regardless of the coupon levels, largely to make currency gains. Building society paper was also in great demand, largely from UK investors as these borrowers have yet to make a substantial impression on foreign investors.

The sector has benefited more than most from investor anxiety over rising interest rates as the majority of sterling FRNs have their coupons refixed quarterly and not semi-annually as do the US dollar issues.

An important new chunk of the sterling FRN market is the mortgage-backed sector which is gaining ground with each new issue.

Dealers said the investor base was expanding all the time as institutions and corporate treasurers become more comfortable with the concept. The extent of this acceptance was neatly illustrated last month when the Bank of England gave the TSB group the go-ahead to move part of its mortgage portfolio off balance sheet by using this technique, making TSB the first recognised UK clearer to do so.

Variable rate notes have also been hailed by some market operators as another up and coming area but most dealers are reserving their judgment on the new instruments.

By allowing the coupon to be renegotiated from one coupon period to the next, theoretically giving a more accurate reflection of market conditions and of the borrower's credit, the new notes are said to offer the investor a greater degree of protection. However, this has yet to be tested as has the question of satisfactory liquidity in the market which has so far been dominated by Merrill Lynch and Warburgs.

Many dealers are still cautiously optimistic that the traditional side of the market will once again come to the fore but that will depend on a crisis in the market for interest rate and currency swaps which is still looking fairly robust despite initial fears that new capital adequacy guidelines would stunt its growth.

One senior trader said: "There is going to come a point – although I am not sure when that will be – when raising billions of dollars of funds for several sovereign borrowers is just not going to be feasible via the swap market. Then they will be forced to come back to the floating rate note market where all the necessary machinery is already in place."

Dominique Jackson

DEBT OUTSTANDING IN INTERNATIONAL BOND MARKET ($bn)

	1986	1987	Q1	Q2	Q3	Q4	1988 Q1
Total gross new issues	219.1	180.8	51.9	51.6	42.8	34.6	47.9
minus scheduled repayments	23.1	35.9	6.9	6.7	13.1	9.2	12.5
minus early repayments	36.4	36.3	8.5	8.1	7.9	11.8	9.3
= Total net new issues	159.6	108.7	36.5	36.8	21.5	13.6	26.1
plus/minus valuation effects	59.1	104.1	31.5	-4.0	-0.2	76.8	-18.7
= Total change in stocks	218.7	212.8	68.0	32.8	21.6	90.4	7.3
of which: floating rate notes							
Total gross new issues	49.5	12.1	2.8	2.1	2.3	5.4	2.8
minus scheduled repayments	1.6	2.5	0.6	0.4	0.8	0.6	0.7
minus early repayments	18.4	10.0	3.9	1.7	2.3	2.1	2.4
= Total net new issues	29.5	-0.4	-2.2	nil	-0.8	2.7	-0.3
plus/minus valuation effects	2.2	7.1	2.3	-0.1	-0.2	5.0	-1.2
= Total change in stocks	31.7	6.7	0.1	-0.1	-1.0	7.7	-1.4

Source: BIS

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %.
US DOLLARS							
Mitsui Toatsu Chemical‡◆	200	1992	4	4½	100	Nomura Int.	4.500
Nippon Fire&Marine Ins‡◆	100	1993	5	5¼	100	Yamaichi Int.(Eur)	5.250
Nichirei Corp.‡◆	100	1992	4	4½	100	Yamaichi Int.(Eur)	4.500
American Brands§◆	200	2003	15	5⅜	100	Morgan Stanley	5.375
Kawasaki Steel Int.Fin.◆	50	1993	5	9¾	101½	Credit Lyonnais	9.361
Electricite De France◆	200	1995	7	9½	101⅝	J.P.Morgan Secs.	9.175
Kellogg Co.◆	100	1991	3	9⅛	101.07	Goldman Sachs	8.703
CANADIAN DOLLARS							
Kredietbank Int.Fin.◆	75	1991	3	10¼	101⅛	UBS Secs.	9.798
Ford Motor Credit◆	100	1990	2	10⅛	101	UBS Secs.	9.552
GECC◆	175	1993	5	10¼	101⅜	Chase Investment Bk	9.888
Olympia&York 1st Can.pl◆	150	1993	5	11	101¼	Merrill Lynch	10.665
Berliner Bank AG◆	50	1993	5	10¼	101⅝	Berliner Bank Lux.	9.823
AUSTRALIAN DOLLARS							
Toyota Motor Credit Corp◆	75	1991	3	13	101⅝	Hambros Bank	12.320
Skopbank†◆	45	1993	5	(a)	96.90	NKK Europe	-
Mitsui Fin. Australia†◆	200	1991	3	(b)	100.10	Mitsui Fin. Int.	-
Natwest Australia Bank◆	50	1991	3	13½	101½	County Natwest	12.866
SAS◆	50	1990	2	13¼	101½	Dresdner Bank	12.358
NEW ZEALAND DOLLARS							
C'wealth Bk of Australia◆	60	1991	3	14	101⅞	Hambros Bank	13.203
Sogen Finance Lux◆	60	1991	3	14	101¾	Societe Generale	13.256
Westpac Banking Corp◆	60	1991	3	14¼	101½	Westpac Banking Corp	13.608
D-MARKS							
West LB Int. Lux◆	100	1993	5	5⅜	100½	West LB Girozentrale	5.633
McDonalds Corp◆	50	1993	5	5¼	100	Bayerische Vereinsbk	5.250
European Coal&Steel Com.◆	54	1993	5	5½	100	Bayerische Vereinsbk	5.500
SWISS FRANCS							
Tachibana Shokai§◆	20	1993	-	½	100	Handelsbk Natwest	0.500
Hokuetsu Ind.Co.**§◆	30	1993	-	¼	100	B.della Sviz.Ital.	0.250
CIBC◆	100	1998	-	5⅛	100½	Credit Suisse	5.060
Ringer Hut Co.**§	35	1993	-	(½)	(100)	SBC	*
Yushiro Chemical Ind.**§	40	1993	-	(½)	100	UBS	*
Tokyo Tatemono Co.**§	120	1993	-	(½)	100	UBS	*
YEN							
Mitsubishi Corp.(c)◆	10bn	1992	4	7	101⅝	Yamaichi Int.	6.525
LUXEMBOURG FRANCS							
Kemira Oy**◆	300	1993	5	7½	100	Credit Europeen Lux.	7.500
Kredietbk Int. Fin.NV**◆	300	1993	5	7½	100½	Kredietbank SA Lux	7.377
GMAC Cont.Detroit**◆	300	1991	3	7¼	100¼	BGL	7.155

*Not yet priced. †Floating rate note. ‡With equity warrants. §Convertible. ◆Final terms. **Private placement. (a)Coupon at 15.5% below twice the three month bank bill rate. (b)Coupon for the first 6 months will be the Australian bank bill rate less 25 basis points. Thereafter interest will be paid at a level equal to the 3 month bank bill rate less 15 basis points paid quarterly in arrears. (c)Dual Currency:redemption in US$ at $79,062.80, per Y100 million bond. Note yields are calculated on AIBD basis.

Lac seeks retrial in Hemlo gold mine row

By Our Montreal Correspondent

A SEVEN-YEAR legal battle over ownership of the rich Page Williams gold mine in the Hemlo district of Northern Ontario has taken a new twist.

Lac Minerals, one of the two Canadian mining groups contesting ownership, has applied for a new trial, saying it has new evidence.

The Page Williams mine was awarded to Corona Corporation in March 1986 by the Ontario Supreme Court. However, the Supreme Court of Canada is scheduled to hear an appeal on October 11.

Lac says important new evidence has come to light and justifies it seeking a new trial. It has asked the Ontario Supreme Court to set aside the 1986 decision.

The Page Williams mine is expected to produce 450,000 oz of gold next year and is among the richest in North America.

Lac's motion for a new trial is due to be heard in Ontario Supreme Court on October 27, but the company is trying to get the hearing advanced before the Supreme Court of Canada opens its hearing.

Prospectors Mr Donald McKinnon and Mr John Larche are credited with finding the now famous Hemlo gold camp late in 1979. Lac claims its new evidence may be inconsistent with testimony given at the original trial in 1986 by Mr McKinnon.

Corona described the Lac move as a "desperate, last-minute attempt to delay the workings of the legal system."

Speculation in the mining industry had suggested the two companies might come to an out of court agreement.

Mortgage Funding

THE AAA rating assigned by Moody's Investors Service to a new issue of mortgage-backed notes for Mortgage Funding Corporation, reported in the FT on Friday, is a prospective rating. This is a preliminary opinion, the final rating depending on how the issuer responds to any suggestions the agency may make.

Parmalat faces shake-up after Kraft negotiations

By John Wyles in Rome

MR CALISTO TANZI'S Parmalat food empire looks set for an important restructuring next month after long and difficult negotiations with Kraft, the US foods manufacturer.

The precise outcome of these is still unknown, although it has emerged during the last fortnight that Kraft has been forced to modify its original objective of a full takeover of Parmalat in favour of a more limited purchase of some of its subsidiaries.

Mr Tanzi, who has built up his L1,000bn ($717m) a year business over the past 30 years, appears to have come under a variety of pressures, both political and industrial, to limit the extent to which another non-Italian manufacturer is allowed to establish an important bridgehead in the domestic food industry.

The issue of foreign penetration is becoming especially sensitive in the wake of the Nestlé purchase of Buitoni from Mr Carlo De Benedetti. So much so that it is beginning to influence the political discussion over the future of the state-owned SME food group, whose takeover by Mr De Benedetti was blocked three years ago.

The parties in the governing coalition are divided about whether SME should be privatised, but all agree that it ought to be a vehicle for regrouping what is left of the Italian food industry.

The prospect of part, or all of Parmalat being sold to Kraft at one stage appeared likely to incite a rival approach from Federconsorzi, the federation of small food manufacturers. But the organisation apparently changed its mind, impressed not least by the size of the Parmalat debt burden of around L500bn.

A possible joint venture between Parmalat companies and Federconsorzi cannot be ruled out, however, until Mr Tanzi makes his intentions clear. This may not be until September 3 and 5 when he has called shareholders meetings of Parmalat SpA and three other subsidiaries, Parmalat Paestum, Max Baker and Tettamanti e Figli.

Since these companies are involved in baking, fruit juices and tomato sauce manufacturing, the speculation is that they may be spun off into a new holding company, control of which would then pass to Kraft.

Mr Tanzi, as a result, would keep control of his core businesses, long life milk and cheeses, together with his television station, Odeon.

Offer seen for Canadian Tire

By Robert Gibbens in Montreal

A NEW chapter in the two-year contest for control of Canadian Tire (CTC), the diversified retailing group, may be coming. Speculation is rising of a bid potentially worth around C$2bn (US$1.64bn).

CTC, which was Canada's merchandising success story in the 1970s, has this year resumed its growth path after a period of struggling. It is a national franchise chain selling car parts, maintenance and repair, hardware and sports goods at highly competitive prices.

A six-month agreement preventing three Billes family members and the store dealers from selling their voting shares expires on Friday.

Alfred and David Billes, sons of the founder, want to sell their combined 40.6 per cent of the voting common shares. Their sister, Martha, wants to keep her 20.3 per cent share.

The dealers earlier tried to buy a part of the family voting stock but this was blocked by the Ontario Securities Commission because the terms unfairly excluded non-voting public shareholders. CTC has 85m non-voting A shares outstanding and 3.5m common voting shares.

Last February CTC's board proposed letting the two Billes brothers convert their common shares into class A shares. Then they would have sold them. Martha and the dealers would have stayed as voting shareholders while the A non-voting shares would have been given the full vote.

However, the A shareholders rejected the plan and the Billes agreed not to sell any voting shares until August 19.

CTC has sold off two unsuccessful foreign ventures, reshaped policy and installed a new president. The class A stock is now trading at C$17, up from a year's low of C$8.50.

The latest bid rumours centre on Claridge Investments, the holding company of Mr Charles Bronfman of Montreal, and associates. Mr Bronfman is co-chairman of Seagram, the world's biggest distiller.

The George Weston Group, which owns Loblaw, Canada's largest food distributor, and the restructured Canadian Pacific are also mentioned. The dark horse could be Sears Roebuck, the largest US retailer, and its Canadian affiliate.

United Engineers ahead of forecast

UNITED ENGINEERS, the once loss-making company which re-entered the Malaysian stock market early this year under the control of the ruling United Malays National Organisation of Mr Mahathir Mohamad, the Prime Minister, has reported a pre-tax profit of 22.4m ringgit ($8.6m) for the first half of 1988, up from 5.5m ringgit a year earlier. Group turnover rose to 35.8m ringgit from 14m ringgit, writes Wong Sulong in Kuala Lumpur.

Tan Sri Radin Soenarno, UE's chairman, said pre-tax profit for the second half was expected to be not less than 25m ringgit, giving the group a full-year profit of more than 47m ringgit. This would be more than the 32.6m ringgit profit forecast in its prospectus when its shares were relisted on Kuala Lumpur Stock Exchange in May.

European Vinyls buys three PVC businesses

By Our Financial Staff

EUROPEAN VINYLS, a joint venture between ENI, the Italian state energy group, and Imperial Chemical Industries of the UK, is to buy three European PVC businesses for an undisclosed sum, ENI said.

The two parent companies have authorised European Vinyls to buy Interplastic Wels of Austria, Sweden's Davinyl and the PVC business of Weston Hyde Products of the UK.

The acquisitions will boost European Vinyls' turnover to an estimated DM2.4bn ($1.3bn) this year. Last year it made a net profit of DM30m on turnover of DM1.88bn.

ENI said the acquisitions were part of its strategy to develop European Vinyls' plastics business and boost its international presence.

Of the companies to be bought, Interplastic Wels had a turnover of Sch569m ($42.9m) last year, while Davinyl had a turnover of SKr152m ($23.5m), it said.

European Vinyls is planning to raise its capital to Fl 708m ($333m) from Fl 360m to help finance its expansion plans.

Mitsubishi profits surge

By Our Financial Staff

MITSUBISHI Petrochemical, the largest Japanese petrochemical group, has reported that unconsolidated net earnings in the first half of 1988 surged 138.7 per cent to Y9.163bn ($68.8m) from Y3.84bn a year earlier.

Per share net earnings rose to Y21.83 from Y10.66. Pre-tax profits totalled Y24.94bn, up 145.2 per cent from Y10.17bn.

Sales showed a 16.1 per cent year-on-year increase to Y157.4bn from Y135.6bn.

Mitsubishi Petrochemical ascribed the jumps in both pre-tax and net earnings to higher extraordinary profits stemming from an increase in interest payments received during the latest reporting period.

The company is planning to pay Y3 per share in interim dividends, up from the Y2.5 paid a year earlier.

Japan's Kobe signs steel accord with Venezuela

By Joseph Mann in Caracas

KOBE STEEL and CVG, a Venezuelan government development agency, have signed an agreement covering feasibility and pre-engineering studies for a $1.3bn steel complex planned for the country's heavy industry centre in Ciudad Guayana.

The complex would produce 1m tonnes a year of steel sheets and 1m tonnes of pre-reduced iron ore briquettes. Both products will be for export.

If preliminary studies turn out to be favourable, the Japanese steelmaker and CVG will set up a joint venture to build and operate the new complex, to be called Comsigua.

CVG controls large state-owned ventures in steel, hydro-electric power, aluminium and mining in the Guayana region.

Kobe Steel is also investing in another project in Venezuela, involving the refurbishing of a plant formerly owned by US Steel. The plant was designed to produce enriched iron ore briquettes for the steel industry, but never worked properly.

Kobe is leasing the briquette plant, which is now owned by the Venezuelan Government, and says it will make the facility operate efficiently and will export its output. Total investments in the refurbishment project are about $180m.

Henley hit by interest costs

By Roderick Oram in New York

HENLEY GROUP, the California-based industrial holding company, incurred an increased loss in the second quarter with strong gains in operating profits more than offset by higher interest expenses, the amortisation of goodwill and other charges.

Interest costs were the main culprit as Mr Michael Dingman, Henley's chairman, tried to take over Santa Fe Southern Pacific, the railway and natural resources group.

Last month Henley conceded defeat and sold its 16.9 per cent Santa Fe stake to Itel for $827m and a 40 per cent stake in Itel. Once the deal is complete, Henley's long-term debt, which peaked at over $1bn, will be reduced to virtually zero.

The second-quarter net loss was $57m or 71 cents a share, on revenues of $840m, against a loss of $37m or 37 cents, on $913m a year earlier.

First-half net profits were $46m or 55 cents, after a gain of $165m from the sale of the M.W. Kellogg unit, against a loss of $120m or $1.18 a year earlier. Sales fell to $1.27bn from $1.78bn, reflecting the Kellogg disposal.

The group's four largest operating subsidiaries all reported strong profit increases in the first half.

Investors pay $305m for Lucky's Florida stores

By Our New York Staff

AMERICAN STORES has sold for $305m the Florida division of Lucky Stores two months after the $2.5bn purchase of Lucky made American the largest US supermarket chain.

The purchaser was a group of investors led by Gibbons, Green, van Amerongen, the New York leveraged buy-out specialist which had competed against American for the Lucky Group.

The division, Lucky's largest outside California, consists of 95 Kash n' Karry stores based in Tampa. In an earlier disposal, American sold Lucky's 38 Arizona stores for $75m to Odyssey Partners, another New York buy-out firm.

The Federal Trade Commission has raised anti-trust concerns about the California market where American's Alpha Beta Stores and Lucky dominate food and drug retailing. To meet the concerns American has also agreed to sell 37 Alpha Beta and Lucky stores. Buyers have been found for 30 of them so far.

After the disposals, American will own some 200 Alpha Beta and 340 Lucky stores in California.

Reduced loss at Dome Petroleum

DOME PETROLEUM, the Canadian energy group which is being taken over by Amoco Canada for C$5.1bn, has reported a reduced second-quarter loss of C$34m or 10 cents a share, writes Our Financial Staff.

The company blamed its heavy debt load for the loss, which compared with C$46m or 24 cents a year earlier. Revenues slipped from C$350m to C$317m.

Union rejects Pan Am wages pact

By Our New York Staff

PAN AM'S hopes of staving off a financial collapse have diminished with the rejection of a wage freeze and changes in work practices by the Transport Workers Union.

A substantial margin of the union's 5,200 Pan Am mechanics, service personnel and flight despatchers voted against the pact.

The pact would have been worth $81m in labour savings to the airline in the next three years.

Pan Am had no comment on its next move. It had originally threatened to sell off many of its aircraft, routes and facilities if it did not get a 10 per cent wage cut. It later offered the wage freeze as a conciliatory measure.

With one of the highest debt loads and oldest fleets in the business, Pan Am reckons it needs $180m in cost savings a year to survive.

UK COMPANY NEWS

RKF steps into continental Europe

By Clay Harris

RKF GROUP, building services conglomerate, has taken its first step into continental Europe with the acquisition of a 90 per cent holding in Sapragaz, a Belgian-based manufacturer of ceiling-suspended unit heaters.

Although it is paying only DM 700,000 (£217,000) for the controlling stake in a company which has lost money in the past two years, RKF presented the deal as a major strategic move in the context of the planned creation of a unified European Community market in 1992.

The purchase will lift RKF's share of the western European market for unit heaters to 10 per cent and improve continental distribution for its larger Pak-a-Way cabinet heaters, which until now have been only sporadically sold outside the UK.

Sapragaz also brings RKF the advantage of familiarity with differing standards in Belgium, the Netherlands, West Germany, Italy and Switzerland – where many of its industrial and commercial customers are located – ahead of the planned unification of specifications throughout the EC.

In 1987, Sapragaz achieved sales of £2.5m as output fell to 2,500 heaters after its UK distributor went into liquidation. RKF's Rossmore Engineering subsidiary plans to order immediately 1,000 additional unit heaters from Sapragaz, which at present are supplied by Reznor, a Belgian rival and the largest single manufacturer of the product in Europe.

Mr Ian Gould, director for heating and engineering, said that RKF expected to double UK sales of unit heaters to 2,000 within 18 months. Production at Sapragaz's Brussels factory could be raised to 6,000 units without additional investment, and the freehold site had room for expansion, he said.

The controlling stake was sold by Stiebeleltron, a West German company. RKF has a performance-linked option to buy the remaining 10 per cent, held by management and the family of the original owners.

FT Share Information Service

The following securities were added to the Share Information Service in Saturday's edition:
Anglesey Mining Warrants (Section: Mines-Miscellaneous).
BMSS (Buildings).
Fitch & Co. Design Consultants 6p Cnv. Prf. shs. (Paper)
HPC (Chemicals).
Hewetson 7½ Cm. Cnv. Red. Pref. shs. (Buildings).
Jackson Group (Buildings).
Severfield-Reeve (Buildings).
Tams (John) (Industrials).
Westfield International (Property).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims- EFT Group, Noble & Lund, Richardson Westgarth, Transport Development, Unidare, Unilever.
Finals- Dudley Jenkins, Oceonics, Regentcrest.

FUTURE DATES

Interims-	
Assoc. Brit. Ports	Sept 13
CCF Group	Aug 17
Colorgraphic	Sept 1
Cooper (Alan)	Sept 1
Hanson	Aug 24
Liberty	Aug 31
Macfarlane Gp (Clansman)	Aug 31
Morrison (Wm) Supermkts.	Sept 22
Refuge Group	Aug 26
Royal Dutch Pet.	Aug 25
Shell Transport	Aug 25
Tozer	Sept 12
Wimpey (George)	Sept 7
Finals-	
Glenbel Invs.	Aug 16

A three wheel drive into the US

Richard Tomkins on the slowly changing fortunes of Reliant Motor

Poor Reliant Motor. Nobody seems interested in this USM-quoted company's recent return to profitability after two years of pre-tax losses, the reasons for its £1m rights issue, or the significance of last month's tie-up with Universal Motors of the US.

Instead, the question that perpetually craves an answer is this. Why on earth do people go on buying the company's staple product, the Reliant Robin?

The butt of endless jokes, this extraordinary plastic three-wheeler – in fact renamed the Rialto in 1982 – continues to find a market in spite of its unprepossessing looks and relatively high cost.

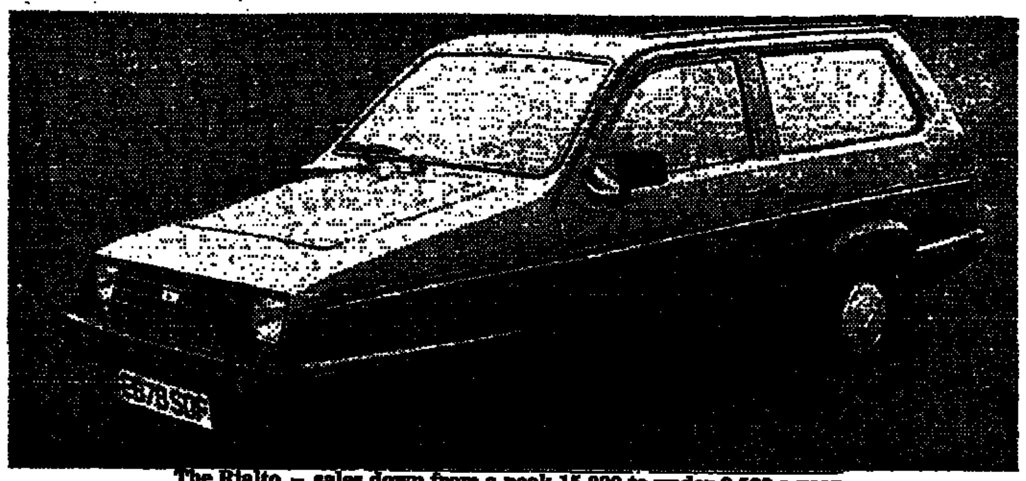
First developed as the Reliant Regal in 1953, the car used to be the next step towards car ownership for the less-well-off family with motorcycle and sidecar. Its lack of a fourth wheel meant it could (and can) be driven with just a motorcycle licence.

Today, its main selling points are its low running costs and the longevity of its fibreglass body. But small production volumes do not permit economies of scale, and the asking price of £5,145 for the hatchback looks high against £4,898 for a Metro.

One reason why the car still sells is the replacement market. According to Mr Arthur Baines, a Reliant dealer at Barton Goldster Garages in Whitwick, Leicestershire, a strong sense of loyalty binds Reliant owners to the Robin ethos.

"It's hard to pinpoint why, but they just seem to fall in love with them," he says. "A lot of our customers give them names like Bessie or Gert."

Sometimes, too, the car's curiosity value threatens to give it cult status – as when the lifestyle magazine Excel ran a tongue-in-cheek article earlier this year suggesting that the Robin could become an essential yuppie appurtenance.



The Rialto – sales down from a peak 15,000 to under 2,500 a year

The market for three-wheelers is nevertheless mature. Reliant's sales have fallen from a peak of 15,000 Robins a year in the early 1970s to less than 2,500 Rialtos a year now, and the workforce at its Tamworth, Staffordshire, factories is down from 2,500 to 350.

Reliant, however, is not just the Rialto. The company also has a tradition of sports car manufacture going back to the 1960s, when it developed the Scimitar GTE – a high-performance estate car which won fame as a favourite of Princess Anne, the Princess Royal.

That model was dropped in 1986 when Reliant decided that volumes did not justify the cost of updating it. Instead, the company launched an open two-seater sports car, the SS1, to fill the gap left by BL's discontinued MG and Triumph sports cars.

Initially, the SS1 did badly. Although its performance and handling was praised, its body styling came in for criticism. Further, Reliant – by then turning in pre-tax losses – could not afford heavy outlays on promotion, and sales fell well short of target.

Last month's deal with Universal Motors, a New York-based importer and distributor of specialist cars, has saved the SS1 from probable extinction by providing for a body re-styling at Universal's expense and putting the new-look model into the North American market.

This should lift sports car production from 250 a year to at least 2,000 when exports to the US begin late next year. Last month's rights issue will help finance the higher production levels.

Significantly, the Universal deal also gives the US company the rights and licence to the car, putting Reliant in the role of manufacturing sub-contractor – though Reliant will market the vehicle in the UK and Europe under licence from Universal.

Reliant's new role under this deal reflects a fundamental change in the company, born out of the recognition that it is simply too small to compete against the industry giants in the face of escalating design and development costs.

As Mr Cyril Burton, managing director, frankly acknowledges: "I don't see Reliant ever going back to the drawing board with a blank sheet of paper to design and develop a motor car, because I can't see us being able to afford it."

Instead, Reliant sees its future as a sub-contractor offering design, engineering and manufacturing services to the automotive industry. An example was last year's contract for the body manufacture and assembly of Ford's limited-run RS200 rally car.

More recently Reliant's industrial mouldings division has won contracts to supply van roof extensions for the Ford Transit and complete body shells for the new London taxi, Metro-Cammell Weymann's Metrocab. These contracts helped turn interim pre-tax losses of £29,000 into a tiny pre-tax profit of £13,000 for the half year to March 1988.

Reliant's shares have shot up in the wake of these developments from a low of 30p (adjusted for rights) in April to 39p now. But then, it has been a volatile stock since the company was demerged onto the USM by Nash Industries (formerly J.F. Nash Securities), the quoted engineering, construction and packaging group.

It is likely to remain so. The company's market value is only £3.5m, and 51 per cent of the shares are held by the family interests of Mr John Nash – the man who recently hit the headlines in a fight for control over the future direction of Nash Industries, in which he retains a 31 per cent stake. (He lost.)

The share price, too, is looking a long way ahead. The results of the drive into the US market will not become apparent until the results for the year to September 1990 are out.

Meanwhile, the company's performance will largely depend on how much work Reliant can win for its plastic mouldings subsidiary. It would like more contracts like a recent one that left the company's reputation for quirkiness undiminished: manufacturing a consignment of riot shields for Peru.

COMPANY NEWS IN BRIEF

GARTMORE EUROPEAN Investment Trust: net asset value per 50p share fell to 347.6p (440.7p) at June 30. Net revenue declined to £109,000 (£139,000). Earnings slipped to 2.55p (3.28p) and it is proposed to raise the final dividend to 2.5p (2.25p).

HOW GROUP: The offer for Hansgross has been declared unconditional with acceptances received totalling 98.3 per cent of the ordinary.

HYMAN, Oldham-based polyurethane foam converter and manufacturer, is acquiring Ryburn, a producer of reconstituted polyurethane foam and rubber-based products which operates from two sites in Halifax. Consideration will be satisfied by the issue to the vendors of 4m ordinary stock units, equivalent to £1.68m.

L&C WASTE MANAGEMENT SERVICES and Wistech have merged their respective Scottish interests. Each party has a 50 per cent interest in a new company, L&C Waste-Tech, which will be one of the largest industrial and environmental service companies in Scotland.

MERGER CLEARANCES: The proposed acquisitions by Alexon Group of Ellis and Goldstein (Holdings), by Tate and Lyle of Staley Continental and by GEC of 35 per cent of the National Nuclear Corporation will not be referred to the Monopolies and Mergers Commission.

NEW GUERNSEY Securities: Net asset value per share totalled 95p at June 30 1988, an improvement of 12.2p over the figure standing at August 20 1987. Revenue before tax amounted to £13,045 (£5,434). Earnings worked through at 5p (2p). Comparisons relate to the period between the formation of the company and its financial year-end.

PILLAR MERCHANTING, a member of the RTZ Pillar Group, has acquired Harduns (Contractors' Tools) from John Mowlem for a price in excess of £2m.

WACE GROUP has acquired Alpress Holdings, producer of roll self adhesive labels, for a maximum £508,000 dependent on profits. Consideration will be satisfied as to £250,000 cash with the balance via the issue of 78,964 new ordinaries.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except when the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
* Britannic As.	Aug 17	Inter due	* Stand Chartd.	Aug 17	Inter due
BSR	Aug 17	Inter 0.47	* W H Smith	Aug 17	Final due
Jaguar	Aug 18	Inter 3.7	* Unilver	Aug 15	Inter due

FINANCIAL TIMES STOCK INDICES

	Aug. 12	Aug. 11	Aug. 10	Aug. 9	Aug. 8	Aug. 5	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.17	87.92	87.98	88.31	88.23	88.35	91.43	86.97	127.4	49.18
Fixed Interest	97.42	97.45	97.43	97.91	97.84	97.77	98.67	94.14	105.4	50.53
Ordinary	1484.8	1477.6	1482.1	1501.1	1514.7	1512.8	1512.8	1349.0	1926.2	49.4
Gold Mines	189.5	188.9	190.4	195.0	196.9	200.4	312.5	195.4	734.7	43.5
FT-Act All Share	961.69	957.69	960.37	971.38	978.58	978.32	978.32	870.19	1238.57	61.92
FT-SE 100	1843.4	1835.2	1839.9	1862.6	1876.0	1875.9	1879.3	1694.5	2443.4	986.9

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Govt Securities	5	30.11	30.11	31.66	7.86 40072
International Trusts					
Amer Spec Sits	5	61.08	61.08	65.05	1.52 40073
European Growth	5	17.52	17.52xd	18.65	1.34 40074
International	5	91.83	91.83xd	97.79	1.01 40075
Japan	5	140.2	140.2	149.3	0.01 40076
Pacific	5	224.4	224.4xd	238.9	0.19 40077
Secs of America	5	177.7	177.7	189.2	1.07 40078
W'wide Asset Val	5	26.69	26.69	28.42	1.06 40079
Specialist Trusts					
Asset Value	5	320.7	323.6	344.6	2.89 40080
Conv & Gilt	5	38.50	39.10xd	41.58	5.17 40081
Smaller Co's	5	171.2	171.2xd	182.3	2.21 40082
2nd Smaller Co's	5	196.6	196.6	209.3	1.88 40083
Recovery	5	100.9	100.9	107.4	2.90 40084
Met Min & C'dty	5	105.9	105.9	112.7	1.47 40085
O'seas Earnings	5	208.7	208.7	222.2	3.15 40086
Technology	5	87.19	87.19	92.85	1.39 40087
UK Special Sits	5	264.8	264.8	282.0	2.56 40088

Bishopsgate Progressive Mgmt Co (1200)F
15 St James' Place, London SW1A 1NW 01-493 8111

Progressive Inc	5	£15.74	£16.04	16.93	2.64 40168
Progressive Acc	5	£22.09	£22.51	23.76	2.64 40169
International Inc	5	£16.01	£16.01xd	16.90	1.71 40170
International Acc	5	£20.17	£20.17	21.29	1.71 40171
Can & Foreign Inc	5	188.1	188.1	198.5	2.40 40173
Can & Foreign Acc	5	209.6	209.6	221.2	2.40 40174
Special Sits Inc	5	165.5	168.3	177.6	1.93 40175
Special Sits Acc	5	165.5	168.3	177.6	1.93 40176

Brewin Dolphin Unit Tst Mgrs Ltd (0905)F
5 Giltspur St, London EC1A 9DE 01-248 4400

Brewin Capital	5½	185.2	195.7	208.1	1.51 40177
Brewin Dividend	5½	96.65	101.2	107.6	5.80 40178
Brewin Int Gth Inc	5½	211.3	221.1	235.2	3.49 40179

I.G INDEX LTD, 9-11 GROSVENOR GARDENS, LONDON SW1W 0BD
Tel: 01-828 7233/5699 Reuters Code: IGIN, IGIO

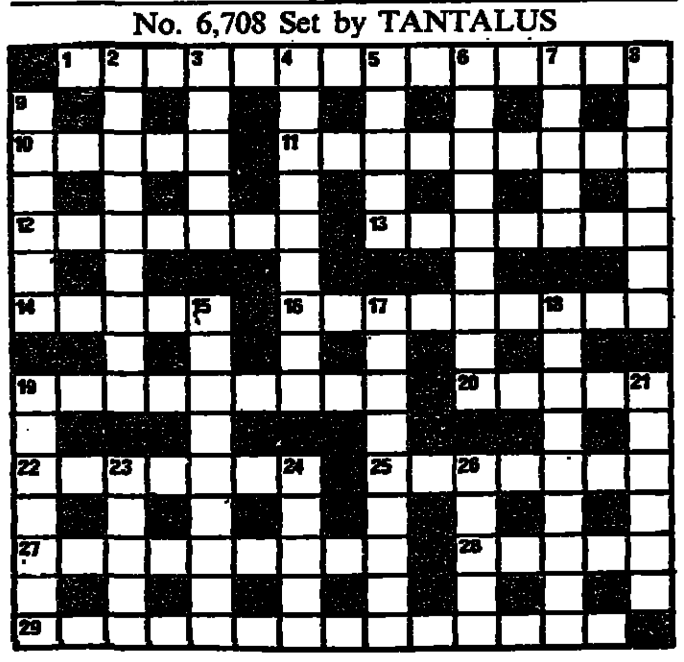
FT 30	FTSE 100	WALL STREET
Aug. 1478/1487 +3	Aug. 1835/1845 +1	Aug. 2030/2042 -1
Dec. 1491/1500 N/C	Dec. 1852/1862 -1	Dec. 2053/2062 -1

Prices taken at 5pm and change is from previous close at 9pm

JOTTER PAD

CROSSWORD

No. 6,708 Set by TANTALUS



ACROSS

1 Sterne late with adaptation of Shakepeare's play (3,7,4)
10 Marines in setback due to conditions (5)
11 Possibly get on with rare source of energy (9)
12 Tear about – intention is to get clothing (7)
13 Overturn bus returning to green (7)
14 You may get a rise through this (5)
16 Displaying sensuality, creature is starting to mate (9)
19 Model example (9)
20 Some educate their children to collect old money (5)
22 Recounts Laertes' disaster (7)
25 Unlawful for the Italian member to join Capone (7)
27 "They kept the — tenor of their way" (Gray) (9)
28 A religious article relating to bees (5)
29 Notice part if it involves embellishment (14)

DOWN

2 Recluse has time to make wine (9)
3 Refuse a stew that's been concocted (5)
4 It may be disturbing for the retired (9)
5 Game fails to start in Irish town (5)
6 Water transport could be drab for us (4-5)
7 Hill dweller about to discover cave (5)
8 Upset about artist and little Mary making mistake (7)
9 Shop with youth leader on this floor (6)
15 Conduct operation (9)
17 Without oriental, cooked rice isn't in – genuine! (9)
18 Got coin in disguised state (9)
19 Strike up bargain for vegetable (7)
21 A boy in race shows special ability (6)
23 French river has oil floating about (5)
24 Female wouldn't be on this if married! (5)
26 Smallest student gets direction (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday August 27.

Do (Accum)	5	691.63	697.43	741.95	4.53 40806
Intl Technology	5	179.54	179.54	191.00	0.35 40807
Do (Accum)	5	188.77	188.77	200.81	0.35 40808
Japan Growth	5	102.81	102.81	109.14	0.01 40809
Do (Accum)	5	103.17	103.17	109.53	0.01 40810
Master Trust	5	40.38	40.38	42.94	1.40 40811
Do (Accum)	5	41.13	41.13	43.74	1.40 40812
N American & Gen	5	104.82	104.82xd	111.51	1.50 40813
Do (Accum)	5	116.09	116.09xd	123.50	1.50 40814
N Am Sm Cos & Rec	5	54.13	54.68	58.18	0.01 40815
Do (Accum)	5	54.13	54.68	58.18	0.01 40816
Pacific Basin	5	156.74	156.74	166.74	0.01 40817
Do (Accum)	5	164.26	164.26	174.74	0.01 40818
Small Cos & Recy	5	288.94	288.94	307.38	1.95 40819
Do (Accum)	5	332.72	332.72	353.95	1.95 40820
UK Growth	5	58.11	58.11xd	61.81	2.33 40821
Do (Accum)	5	59.96	59.96xd	63.78	2.33 40822
Worldwide Gwth	5	187.22	187.22	199.17	0.66 40823
Do (Accum)	5	266.05	266.05	283.03	0.66 40824

Financial Securities	5¼	41.41	41.41	44.00	2.88 40999
Gold	5¼	47.17	47.17	50.59	0.28 41000
Accum Units	5¼	49.03	49.03	52.59	0.27 41001
Intl Leisure	5¼	16.10	16.10	17.11	0.00 41002
Property Shares	5¼	79.71	79.71	84.69	0.88 41003
Universal Energy	5¼	57.55	57.55xd	61.14	3.04 41004
World Technology	5¼	36.00	36.00xd	38.25	0.50 41005
Overseas Growth Funds					
American Growth	5¼	86.05	86.05	91.65	1.60 41008
US Smaller Co's	5¼	58.32	58.32xd	61.97	0.00 41009
(Accum Units)	5¼	58.94	58.94	62.62	0.00 41010
Australian Growth	5¼	46.22	46.22	49.11	2.02 41011
Drayton Japan	5¼	49.98	49.98	52.60	0.00 —
Europe Perf	5¼	65.58	65.58	69.67	0.82 41012
(Accum Units)	5¼	65.75	65.75	69.86	0.82 41013
Euro Smaller Cos	5¼	11.60	11.60	12.33	1.44 41014
Far East	5¼	67.39	67.39	71.61	0.00 41015
French Growth	5¼	34.17	34.17	36.31	0.41 41016
Accum Units	5¼	34.39	34.39	36.54	0.40 41017

GUIDE TO UNIT TRUST PRICING

The data included under the Authorised section of the FT Unit Trust information pages is being expanded to improve the service to readers and to conform with new legislation.

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that prices are set on a historic basis. This means that, unless there has been an intervening portfolio revaluation, investors can normally buy and sell units today at the prices appearing in the newspaper which have been set on the basis of yesterday's asset value.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out last Friday.

Other explanatory notes are contained in the last column of the FT Unit Trust Information pages.

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

	Bid Price	Offer Price	Yield Gross	City-line
Phoenix Assurance Co Ltd				
Phoenix House, Redcliff Hill, Bristol 0272 294941				
Life Assurance Funds				
Wealth Assd	393.4	414.2	–	43248
Eb'r Ph. Eq.	347.0	369.3	–	43249
Pension Plan Funds				
Phoenix				
UK Equity Acc	172.3	181.3	–	43250
International Acc	140.4	147.7	–	43251
Property Acc	142.3	149.7	–	43252
Fixed Interest Acc	155.5	163.6	–	43253
Money Acc	142.5	150.0	–	43254
Bldg. Soc. Linr Acc	139.5	146.8	–	43255
Special Mngd. Acc.Q	153.9	162.0	–	43256
Phoenix/Framlington				
Intnl. Growth Acc	89.30	94.00	–	43257
Am. Smllr. Cos. Acc	86.40	90.90	–	43258
Capital Tst. Acc	179.8	189.2	–	43259
Japan & Gen Acc	195.5	205.7	–	43260
American Tem. Acc	93.70	98.60	–	43261
Recovery Tst. Acc	182.4	192.0	–	43262
Special Mngd Acc	151.2	159.1	–	43263
Phoenix/GT				
International Acc	133.6	140.6	–	43264
US & General Acc	86.90	91.40	–	43265
Amer Spec Sits Acc	65.00	68.40	–	43266
Japan & General Acc	195.8	206.1	–	43267
Far East & Gen. Acc	143.8	151.3	–	43268
UK Capital Acc	183.5	193.1	–	43269
European Acc	140.9	148.3	–	43270
Special Mngd. Acc	130.9	137.7	–	43271
Pioneer Mutual Insurance Co Ltd				
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655				
Managed Fund	271.6	285.9	–	43272
Man Pens Inc & Cap Fds	348.9	367.3	–	43273
Money Fund	113.6	119.6	–	43274
Pens. Mngd Fd (Init)	91.7	96.6	–	43275
Pens Mngd Fd (Acc)	105.8	111.4	–	43276
Pens FT30 Fd (Init)	130.2	137.1	–	43277
Pens FT30 Fd (Acc)	150.2	158.2	–	43278
Pens O'seas MgFd(Init)	61.4	64.7	–	43279
Pens O'seas MgFd(Acc)	70.8	74.6	–	43280
Pens Fxd Int Fd (Init)	107.9	113.6	–	43281
Pens Fxd Int Fd (Acc)	124.5	131.1	–	43282
Pens Deposit Fd (Init)	101.6	107.0	–	43283
Pens Deposit Fd (Acc)	117.2	123.4	–	43284
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath 0444 458721				
American	96.0	102.0	–	43285
Building Soc. Fd	163.0	172.0	–	43286
Balanced	247.0	260.0	–	43287
Deposit	162.0	171.0	–	43288
European	125.0	132.0	–	43289
GT Managed	153.0	162.0	–	43290
Gartmore Mngd	102.0	108.0	–	43291
German	92.0	97.0	–	43292
Gilt	168.0	177.0	–	43293
High Inc	112.0	118.0	–	43294
International Equity	157.0	166.0	–	43295
Japan	220.0	232.0	–	43296
Managed	55.0	58.0	–	43297
Property	262.0	276.0	–	43298
R. W. Imperial Gold	129.0	136.0	–	43299
UK Equity	330.0	348.0	–	43300
Pension Funds				
American	129.0	136.0	–	43301
Building Soc. Fd	155.0	164.0	–	43302
Balanced	189.0	199.0	–	43303
Deposit	152.0	160.0	–	43304
European	123.0	130.0	–	43305
GT Managed	163.0	172.0	–	43306
Gartmore Mngd	99.0	105.0	–	43307
German	87.0	92.0	–	43308
Gilt	141.0	149.0	–	43309
International Equity	117.0	124.0	–	43310
Japan	130.0	137.0	–	43311
Managed	56.0	59.0	–	43312
Property	200.0	211.0	–	43313
UK Equity	283.0	298.0	–	43314
Prolific Life & Pensions Ltd				
Stramongate, Kendall, Cumbria LA9 4BE 0539 33733				
Managed Fund see Balanced Growth Managed Fund				
Balanced Gwth Mngd	517.8	545.7	–	43315
Adventurous Mngd	99.2	104.6	–	–
Secure Mngd	97.9	103.2	–	–
Cash Fd	219.0	230.8	–	43316
Property Fund	265.1	279.4	–	43317
Equity Fund	566.7	597.2	–	43318
Fxd. Int. Fund	287.7	303.2	–	43319
International	249.3	262.7	–	43320
High Income	412.3	434.5	–	43321
Far East	383.5	404.2	–	43322
North American	208.6	219.9	–	43323
Special Sits	528.4	556.9	–	43324
Technology	223.1	235.1	–	43325
Extra Inc Fd	238.6	251.5	–	43326
Convertible & Gilt Fd	149.2	157.3	–	43327
American Income	105.1	110.8	–	43328
Gilt Fund 20	293.3	312.1	–	43329
European Fund	83.7	88.3	–	43330

	Bid Price	Offer Price	Yield Gross	City-line
Provident Mutual Life Assc. Assn.				
William Rd, Hitchin, Herts SG4 0LP 0438 739000				
Managed Ord	290.3	305.6	–	43484
Managed Init	239.9	252.5	–	43485
Equity Ord	417.3	439.3	–	43486
Equity Init	344.8	362.9	–	43487
Index Linked Gilt Ord	122.4	128.8	–	43488
Index Linked Gilt Init	105.6	111.2	–	43489
Overseas Equity Ord	253.2	266.5	–	43490
Overseas Equity Init	209.2	220.2	–	43491
Property Ord	168.4	177.3	–	43492
Property Init	139.2	146.5	–	43493
Fixed Interest Ord	169.7	178.6	–	43494
Fixed Interest Init	140.2	147.6	–	43495
Deposit Ord	135.0	142.1	–	43496
Deposit Init	111.6	117.5	–	43497
Pension Funds				
Managed Ord	351.8	370.3	–	43498
Managed Init	290.7	306.0	–	43499
Equity Ord	526.8	554.5	–	43500
Equity Init	435.3	458.2	–	43501
Pen Ind Lkd Gilt Ord	131.8	138.7	–	43502
Pen Ind Lkd Gilt Init	113.8	119.8	–	43503
Overseas Equity Ord	286.4	301.5	–	43504
Overseas Equity Init	236.6	249.1	–	43505
Property Ord	196.4	206.7	–	43506
Property Init	162.3	170.8	–	49507
Fixed Interest Ord	192.0	202.1	–	43508
Fixed Interest Init	158.7	167.1	–	43509
Deposit Ord	168.2	177.1	–	43510
Deposit Init	139.0	146.3	–	43511
For Provincial Life Ass Co Ltd see Prolific Life & Pensions Ltd				
Prudential Assurance Co				
Holborn Bars, London EC1N 2NH 01-405 9222				
Prufund				
Managed Aug 10	209.5	218.3	–	43512
Prudential Holborn Life Ltd				
30 Old Burlington St, London W1X 1LB 01-439 3134				
Managed	438.6	461.7	–	43513
Equity	886.5	933.1	–	43514
International	300.0	315.8	–	43515
Fixed Intl	362.9	382.0	–	43516
Property	340.1	358.1	–	43517
Cash	238.9	251.5	–	43518
Pacific Basin	174.5	183.7	–	43519
North American	120.6	127.0	–	43520
European	124.1	130.7	–	43521
Holborn Balanced Gwth	102.5	107.9	–	43522
Holborn Strategic Gwth	102.1	107.5	–	43523
Prudential Holborn Pensions Ltd				
30 Old Burlington St, London W1X 1LB 01-439 3134				
Managed	476.8	501.9	–	43524
Equity	683.3	719.3	–	43525
Global Equity	194.9	205.2	–	43526
Fixed Interest	376.8	396.7	–	43527
Property	336.9	354.7	–	43528
Cash	142.6	150.2	–	43529
Index Linked Gilt	169.1	178.0	–	43530
Guaranteed	10.25	11.00	–	43531
International Money	185.1	194.9	–	43532
North American	54.5	57.4	–	43533
Japanese	123.2	129.7	–	43534
European	68.8	72.5	–	43535
Special Situations	101.2	106.6	–	43536
Communications	83.4	87.8	–	43537
Smaller Companies	100.4	105.7	–	43538
Prudential Pensions Limited				
Holborn Bars, London EC1N 2NH 01-405 9222				
Discretionary Aug 10	£131.08	134.88	–	43539
Equity Aug 10	£143.51	147.87	–	43540
International Aug 10	£20.87	21.56	–	43541
Intl Bond Aug 10	£10.54	10.68	–	43542
Fixed Int Aug 10	£68.84	69.74	–	43543
Index Linked Aug 10	£53.59	54.25	–	43544
Property Aug 10	£89.68	94.76	–	43545
Cash Aug 10	£18.9464	18.9464	–	43546
Pru-Linked Retirement Plan				
Managed Aug 10	331.6	345.5	–	43547
Cash Aug 10	178.7	186.2	–	43548
Prudential Pensions Investment Account				
Pens Mngd Aug 12	133.4	140.5	–	43549
Pens UK Eq Aug 12	246.6	259.6	–	43550
Pens Intl Aug 12	146.3	154.0	–	43551
Pens Fixed Aug 12	156.0	164.3	–	43552
Pens Index Lk Aug 12	133.4	140.5	–	43553
Pens Cash Aug 12	116.8	123.0	–	43554
Regency Life Assurance Co Ltd				
55-57, High Holborn, London WC1V 6DU 01-831 7481				
Aggressive Ptflio Fd	108.6	114.3	–	43555
Balanced Ptflio Fd	285.7	300.7	–	43556
Cautious Ptflio Fd	115.7	121.7	–	43557
Elite Fund	98.9	104.1	–	43558

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

UK LISTED

OFFSHORE INSURANCES

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	"Shorts" (Lives up to Five Years)					
41	Redemption 3pc 1986-96	99¼	8.40	24.2	1Apr 1Oct	1278
2,050	Treas. 9½pc '88	99 13/16	10.76	21.3	25Apr 25Oct	1346
2,250	Treas 11½pc 1989	100½xd	10.43	18.7	22Aug 22Feb	1291
855	Treas 9½pc Cnv 1989	99 3/16	10.49	14.3	18Oct 18Apr	1348
500	Treas 5pc 1989	96 15/16	7.81	8.4	15Nov 15May	1327
1,400	Treas 10½pc 1989	99 13/16	10.46	9.5	14Dec 14Jun	1287
2,400	Exch. 10pc 1989	99 ¾	10.41	27.6	1Feb 1Aug	1250
2,000	Exch 11pc 1989	100 ½	10.39	22.2	29Mar 29Sep	1256
601	Treas 5pc 1986-89	95⅝	9.23	9.3	15Apr 15Oct	1329
535	Exch 10¼pcCv '89	100 ⅛	9.89	8.4	15May 15Nov	1255
1,000	Treas 13pc 1990‡‡	103 ½	10.16	8.6	15Jul 15Jan	1300
1,400	Exch 11pc 1990‡‡	101⅛	10.14	6.7	12Aug 12Feb	1257
1,250	Exch. 12½pc 1990	103 ¼	10.33	15.2	22Sep 22Mar	1262
550	Treas. 3pc 1990	91¼	8.59	5.4	8Nov 8May	1325
600	Treas 8¼pc 1987-90‡‡	96 11/16	10.11	9.5	15Dec 15Jun	1340
1,000	Treas. 8pc Cv 1990 ‡‡	98⅛	9.01	9.6	16Jul 16Jan	4680
1,887	Treas. 10pcCv 1990	99½	10.21	21.3	25Apr 25Oct	1285
500	Exch 2½pc 1990	88 ¼	7.99	15.4	22May 22Nov	1270
2,200	Treas 11¾pc 1991	103 ⅞	10.28	3.6	10Jul 10Jan	1292
400	Funding 5¾pc '87-91‡‡	91⅝	9.39	1.3	5Oct 5Apr	1275
400	Treas. 3pc 1991	87 ¼	8.13	6.4	13Nov 13May	1326
646	Treas 10pc Cv '91 ‡‡	100 ¼	9.90	6.6	12Jan 12Jul	1286
1,550	Exch. 11pc 1991	102¼	10.22	21.3	25Apr 25Oct	1258
1,350	Treas. 8pc 1991	94 ¾	10.07	4.5	10Jun 10Dec	1335
900	Treas 12¼pc 1992‡‡	107 ¾	10.20	15.6	22Jul 22Jan	1297
1,600	Treas 10pc 1992	99 ½xd	10.14	15.7	21Aug 21Feb	1283
1,400	Treas. 8pc 1992 ‡‡	93 ½	10.06	7.3	13Oct 13Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	101 ¾	10.17	31.3	7Nov 7May	1289
500	Treas. 3pc 1992	83 ¾	8.01	5.5	11Dec 11Jun	1328
1,350	Exch. 12¼pc '92	106 ¼xd	10.28	19.7	25Feb 25Aug	1265
1,757	Exch 13½pc 1992	110 ½	10.22	15.2	22Mar 22Sep	1266
950	Treas 8¼pc 1993	93 ½xd	10.09	12.7	18Aug 18Feb	–
1,850	Treas 10pc 1993‡‡	99 ½	10.05	9.3	15Oct 15Apr	1279
1,100	Treas 12½pc 1993‡‡	109 ¾	10.04	7.6	14Jan 14Jul	1296
	Five to Fifteen Years					
600	Funding 6pc 1993‡‡	89½xd	8.58	9.8	15Mar 15Sep	1276
1,250	Treas 13¾pc 1993‡‡	114 ½	10.12	18.4	23May 23Nov	1304
1,050	Treas. 8½pc 1994	93 ½	10.08	27.6	3Aug 3Feb	–
750	Tr8½pc 1994 'A' (50% pd)	43½	10.09	–	3Feb 3Aug	–
600	Treas 14½pc 1994‡‡	118 ¼xd	10.05	26.7	1Sep 1Mar	1307
1,100	Exch 13½pc 1994	114	10.19	21.3	27Oct 27Apr	1267
1,400	Treas. 10pc Ln. 1994‡‡	99 ½	9.99	3.5	9Dec 9Jun	1284
1,550	Exch. 12½pc 1994	110¼xd	10.20	18.7	22Feb 22Aug	1263
1,600	Treas 9pc 1994‡‡	95 ½	9.90	11.4	17May 17Nov	1345
2,350	Treas 12pc 1995	108 ½	10.15	20.6	25Jul 25Jan	1294
229	Exch 3pc Gas 90-95	82¼	6.28	25.3	1Nov 1May	1271
2,100	Exch. 10¼pc 1995	101 ¾	10.01	14.6	21Jan 21Jul	1254
1,000	Treas 12¾pc 1995‡‡	113⅝	10.03	8.4	15May 15Nov	1298
900	Treas. 14pc '96	119 ½	10.19	15.6	22Jul 22Jan	1305
750	Treas. 9pc 1992-96‡‡	95 ½xd	9.75	9.8	15Sep 15Mar	1344
1,350	Treas 15¼pc 1996‡‡	128 ¼	10.12	28.3	3Nov 3May	1309
800	Exch 13¼pc 1996‡‡	116 ½	10.05	8.4	15Nov 15May	1268
1,109	Conversion 10pc 1996	99 ½	9.99	8.4	15May 15Nov	1340
1,500	Treas 13¼pc 1997‡‡	117 ½	10.04	15.6	22Jul 22Jan	1302
3,100	Exch 10½pc 1997	102⅝xd	9.97	15.7	21Aug 21Feb	1253
3,750	Treas 8¾pc 1997‡‡	93¼xd	9.80	26.7	1Mar 1Sep	1341
1,000	Exch 15pc 1997	128 ¾	10.19	21.3	27Apr 27Oct	1269
2,850	Exch. 9¾pc 1998	98 ½	9.93	13.6	19Jul 19Jan	1273
1,000	Treas 6¾pc 1995-98‡‡	83⅝	9.36	25.3	1Nov 1May	1331
1,100	Treas. 15½pc '98‡‡	133 ½	10.10	22.2	30Mar 30Sep	1308
2,500	Exch. 12pc 1998	112 ½	10.00	13.4	20May 20Nov	1259
1,250	Treas 9½pc 1999‡‡	98 ½	9.70	8.6	15Jul 15Jan	1347
2,900	Exch. 12¼pc 1999	114 ½	9.99	18.2	26Sep 26Mar	1264
1,252	Treas. 10½pc 1999	104	9.93	12.4	19Nov 19May	1288
1,548	Conversion 10¼pc 1999	102⅛	9.91	15.4	22May 22Nov	1242
1,200	Treas. 8½pc Ln 2000‡‡	92⅛	9.63	21.6	28Jan 28Jul	1338
1,554	Conversion 9pc 2000‡‡	95 ½xd	9.69	28.7	3Sep 3Mar	1244
1,817	Treas. 13pc 2000	120 ½	10.09	7.6	14Jan 14Jul	1299
1,050	Treas 10pc 2001	102 ½xd	9.78	20.7	26Aug 26Feb	1280
1,250	Treas. 14pc '98-01	123½	10.21	15.4	22Nov 22May	1306
802	Conversion 9¾pc 2001	100 ½xd	9.72	4.7	10Feb 10Aug	1248
1,600	Exch. 12pc '99-02	112 ½	10.06	15.6	22Jul 22Jan	1261
716	Conversion 10pc 2002	102 ½	9.71	7.3	11Oct 11Apr	1241
1,450	Treas 9¾pc 2002	100 ¼xd	9.69	21.7	27Feb 27Aug	1349
1,300	Exch. 9pc 2002	95½	9.62	12.4	19May 19Nov	1272
1,800	Treas. 13¾pc 2000-03	125⅝	10.07	20.6	25Jan 25Jul	1303
	Over Fifteen Years					
1,000	Treas 10pc 2003	103 ¼xd	9.62	2.8	8Mar 8Sep	1281
1,900	Treas. 11½pc 2001-04	111 ½	9.87	11.2	19Sep 19Mar	1290
900	Treas. 10pc 2004	103¾	9.57	11.4	18Nov 18May	1282
443	Funding 3½pc '99-04	58⅝	8.21	7.6	14Jan 14Jul	1274
1,362	Conversion 9½pc 2004	100 ¾	9.49	21.3	25Apr 25Oct	1246
1,881	Conversion 9½pc 2005	100 ½	9.46	14.3	18Oct 18Apr	1247
1,050	Exch. 10½pc 2005	108 ½	9.48	12.2	20Mar 20Sep	1251
2,200	Treas. 12½pc 2003-05	122 ½	9.70	14.4	21May 21Nov	1295
1,800	Treas. 8pc 2002-06‡‡	88 ½	9.30	1.3	5Apr 5Oct	1334
369	Conversion 9¾pc 2006	103⅛	9.38	8.4	15May 15Nov	1249
3,150	Treas. 11¾pc 2003-07	116¼	9.64	15.6	22Jul 22Jan	1293
1,400	Treas 8½pc 2007 ‡‡	93 ½	9.19	9.6	16Jan 16Jul	1339
1,250	Treas. 13½pc '04-08	131 ¾	9.59	18.2	26Sep 26Mar	1301
1,800	Treas. 9pc 2008 ‡‡	98 ½	9.17	7.3	13Apr 13Oct	1343
1,000	Treas 8pc 2009	89 ¾	9.12	17.2	25Mar 25Sep	1336
369	Conv 9pc Ln 2011 ‡‡	98 ½	9.11	6.6	12Jan 12Jul	1245
1,000	Treas. 5½pc 2008-12‡‡	66¼xd	8.89	4.8	10Mar 10Sep	1330
700	Treas. 7¾pc 2012-15‡‡	86 ½	9.04	20.6	26Jul 26Jan	1332
1,000	Exch. 12pc '13-17	127 ¾	9.17	6.5	12Jun 12Dec	1260

BRITISH FUNDS—Contd

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	Undated					
359	Consols 4pc	43 ½	–	27.6	1Feb 1Aug	1239
1,909	War Loan 3½pc‡‡	39 ½	–	25.4	1Jun 1Dec	1352
154	Conv. 3½pc '61 Aft	53	–	24.2	1Apr 1Oct	1243
56	Treas. 3pc '66 Aft	32¾	–	1.3	5Apr 5Oct	1324
276	Consols 2½pc	27 ½	–	1.6	5Ja Ap Jul Oc	1238
475	Treas. 2½pc	27 ½	–	24.2	1Apr 1Oct	1315
	Index-Linked	(b)	**			
500	Treas 2pc IL '90(84.6)	121⅝	2.78	20.6	25Jul 25Jan	1311
650	Do. 2pc '92‡‡(97.8)	102⅞	3.08	15.2	23Mar 23Sep	1312
400	Do. 2 '94 (102.9)	94⅞	3.27	–	16Nov 16May	–
1,000	Do. 2pc '96(67.9)	138⅛xd	3.36	10.8	16Mar 16Sep	1313
900	Do 2½pc '01(78.3)	113 ⅞	3.92	16.2	24Mar 24Sep	1316
800	Do. 2½pc '03(78.8)	110⅝	3.95	13.4	20Nov 20May	1317
1,200	Do. 2pc '06(69.5)	112 ⅛	3.95	13.6	19Jan 19Jul	1314
950	Do. 2½pc '09(78.8)	104 ½	3.95	13.4	20Nov 20May	1318
1,350	Do. 2½pc '11(74.6)	108 ½xd	3.94	18.7	23Feb 23Aug	1319
1,100	Do. 2½pc '13(89.2)	90⅝xd	3.90	11.7	16Feb 16Aug	1320
1,700	Do. 2½pc '16(81.6)	97 ½	3.86	20.6	26Jan 26Jul	1321
1,400	Do. 2½pc '20(83.0)	95⅛	3.80	10.3	16Oct 16Apr	1322
900	Do. 2½pc '24‡‡(97.7)	79 ½	3.77	10.6	17Jan 17Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for November 1987:103.4 and for June 1988:106.6

INT. BANK AND O'SEAS GOVT STERLING ISSUES

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
50	African Dv Bk 11¼ Ln 2010	104 ½	10.58	2.6	4Jan 4Jun	–
100	Asian Dev Bk 10¼pcLn2009	100 ½	10.20	24.3	24Mar 24Sep	–
100	Australia 13½pc 2010	125 ½	10.51	24.6	28Jan 28Jul	–
100	Do. 11¾pcLn2015	109 ½	10.39	24.3	26Apr 26Oct	–
75	Euro Inv Bk 11pc Ln 2002	106 ¾	10.21	23.2	23Mar 23Sep	–
100	Do. 10⅜pc2004	101 ½	10.19	22.4	22Mar 22Nov	–
75	Int-Am Dev Bk 12½pc 2003	116 ¾	10.31	6.6	8Jan 8Jul	–
175	Do. 9¾pcLn 2015	95 ½	10.24	13.4	15May 15Nov	–
75	Mlysia 10¾pcLn 2009	96¼xd	11.22	27.6	31Jan 31Jul	–
50	Utd. Mexican States 16½pc 2008	111½xd	14.86	27.6	1Mar 1Sep	–

CORPORATION LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
32	Birmingham 13½pc 1989	103½xd	9.48	20.4	29May 29Nov	1838
45	Do. 11½pc 2012	103½xd	11.10	20.4	15May 15Nov	1837
40	GLC 6¾pc 1990-92	89½xd	10.26	15.7	15Feb 15Aug	2647
40	Leeds 13½pc 2006	122½	10.76	11.3	1Apr 1Oct	3146
5	Liverpool 3½pc Irred	33xd	–	1.6	1Ja Apr Jn Oc	3169
25	LCC 6¾pc '88-90	93½xd	9.90	10.6	10Jan 10Jul	3198
26	Do. 3pc '20 Aft	30xd	–	1.8	1Mar Jn S D	3197
7	Manchester 11½pc 2007	109½xd	10.40	31.3	25Apr 25Oct	3275

COMMONWEALTH & AFRICAN LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
–	NZ 7½pc 1988-92	90	10.40	1.12	1Jan 1Jul	–
–	S Rhod 2½pc Non-Asstd.	206	–	–	1Apr 1Oct	–
4	Do. 4½pc 87-92 Asstd.	80	–	7.1	7Feb 7Aug	–
4	Zimbabwe Ann (£100pd)	47xd	–	15.3	15Apr 15Oct	4572

LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	Building Societies					
20	N'wide 10 ¾pc 22.8.88	99 ½	11.64	25.7	17Feb 22Aug	–
20	Do. 10½pc 12.9.88	99¾	11.22	8.2	7Mar 12Sep	–
20	Do. 10⅝pc 26.9.88	99 ½	11.31	22.2	21Mar 26Sep	–
20	Do. 10 ¾pc 31.10.88	99⅝	11.51	25.3	26Apr 31Oct	–
20	Do. 9¾pc 28.11.88	99 ¼xd	11.59	25.4	23May 28Nov	–
20	Do. 9¾pc 28.12.88	99 ½	11.53	20.5	21Jun 28Dec	–
20	Do. 9½pc 23.1.89	99 ¼xd	11.54	17.6	23Jan 18Jul	–
20	Do. 9½pc 20.2.89	99 ¼	11.57	–	20Feb 15Aug	–
20	Do. 9½pc 13.3.89	99 ¼xd	11.55	8.8	13Mar 7Sep	–
20	Do. 9 ¾pc 17.4.89	98 ½	11.59	–	17Apr 11Oct	–
–	Do. 9½pc 8.5.89	98½	11.54	–	8May 3Nov	–
–	Do. 8½pc 30.5.89	97 ½	11.54	–	30May 23Nov	–
–	Do. 9½pc 26.6.89	98 ½	11.60	3.8	26June 20Dec	–
60	Do. 3⅜pcIL Ln 2021	93⅛	4.71	19.7	30Jan 31Jul	3465
	Public Board and Ind.					
3	Agric. Mt. 5pc '59-89	95xd	8.51	1.12	1Jan 1July	1532
25	Met. Wtr. 3pc 'B'	47xd	9.83	1.8	1Mar 1Sep	3361
	Financial					
331	11¾pc Un Ln '90	100¾	11.07	13.6	11Jan 11Jul	–
15	Do 7¼pcADb89-92	88½xd	10.60	27.5	30Sep 31Dec	–
15	Do. 12½pc Un. Ln. 1992	104⅝	10.95	15.2	14Mar 14Sep	–
10	Do. 7¼pc A 1991-94	85	10.62	29.2	31Mar 30Sep	–
10	Do. 9pc A 1991-94	94	10.34	29.2	31Mar 30Sep	–
9	Do. 8¾pc Ln 1992-97	90½xd	10.99	1.8	31Aug 28Feb	–

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
6,526.8	Texaco $6.25	26⅞xd	$3.00	6.6	4.8	Mr Je Se De	4200
5,371.8	Time Inc. $1	56½xd	$1.00	1.0	24.01	Mr Ju Se De	4234
1,480.1	Transamerica $1	19¼xd	$1.84	5.6	29.5	Ja Ap Ju Oc	4289
	For Transworld see TW Services						
519.0	TRINOVA Corp	15⅞xd	64c	2.5	10.8	Mc Je Se De	4309
5,108.9	USX $1	16¼xd	$1.20	4.2	2.8	Mr Je Se De	4380
2,779.8	Utd. Technologies	21¼xd	$1.60	4.4	19.5	Mr Ju Sp De	4381
6,436.9	US West	32⅛	$3.52	6.4	13.4	Fb My Ag No	—
4,652.9	Waste Management $1	20⅝xd	48c	1.4	17.5	Ap Jly Oc Jan	4439
1,012.5	Whirlpool $1	14⅝	$1.10	4.4	25.01	Mr Ju Se De	—
1,803.1	Woolworth $3½	28⅞	$1.64	9.4	19.11	Mr Je Se De	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
—	ABM Gold Corp	227p	—	—	—	—	—
—	Abbot Energy Corp	24½p	—	—	—	—	—
597.6	Amer. Barrick Res.	10¾	—	—	—	—	—
—	American Lightwave	4½p	—	—	—	—	—
—	Armeno	15½p	—	—	—	—	—
—	Augmitto Explo.	59½p	—	—	—	—	—
1,398.5	Bk. Montreal	13¼xd	$2.00	7.3	8.8	Fb My Ag Nv	—
1,898.0	Bk. Nova Scot.	662p	76c	5.6	28.6	Ja Ap Jo Oc	—
4,762.0	BCE	17¾xd	$2.44	6.7	6.6	Ap Jy Oc Ja	—

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INSURANCES

LEISURE

LONDON SHARE SERVICE

LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING — Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

3.57	Publishing Hldgs. 5p. γ	22	–	–	–	–	3735
10.4	Royal Sovereign 10p. γ	235	4.6	2.6	11.4	May Nov	1505
1.75	Scott Pickford 10p... γ	25	3.1	16.5	–	–	5062
7.85	Seacon Hldgs....... γ	113	–	–	–	–	3968
1.81	Sonic Tape 2½p.... γ	14½	–	–	–	–	–
5.80	Staks Hldgs. 5p..... γ	21	–	–	–	–	4625
4.28	Swangard Studios 1p γ	3	–	–	–	–	4666
25.6	Takare.......... γ	293	b1.0	0.5	–	–	4647
15.2	Theme Holdings.... γ	67	♦1.1	2.2	25.4	June Dec	4206
3.36	Tomorrows Leisure 20p γ	38	–	–	–	–	4248
11.3	Tullow Oil 10p..... γ	18	–	–	–	–	4886
4.84	UPL Group 10p..... γ	128	L2.41	2.7	23.5	–	4362
7.22	Unit Group......... γ	178	5.0	3.7	4.7	Jan July	4357
8.29	Video Tape Rec 5p. γ	128	L2.3	2.6	9.5	–	4591

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

● "Tap Stock"
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Dealt in under Rule 535(3).
# Price at time of suspension
¶ Indicated dividend after pending scrip and/or rights issue.
♦ Merger bid or reorganisation in progress
♯ Not comparable
♠ Same interim; reduced final and/or reduced earnings indicated
§ Forecast dividend.
‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
★ Cover does not allow for shares which may also rank for dividend at a future date.
|| No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... γ	71	......
Craig & Rose £1... γ	780	......
Finlay Pkg. 5p.... γ	89	......
Holt (Jos) 25p..... γ	£11¾	......

IRISH

Nat. 9¾% 84/89..	£100⅛	–⅛
9pc Cap Ln. 1996..	£99½	......
Fin. 13% 97/02...	£119	......
Arnotts.......... γ	365	......
CPI Hldgs.......... γ	138	+2
Carrol Inds.......... γ	152	......
Hall (R. & H.)........	165	+9
Helton Hldgs....... γ	52	......
Irish Ropes.......... γ	165	......
Unidare............ γ	498	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	35
Amstrad	16
BAT	36
BOC Grp	36
BSR	8
BTR	22
Barclays	35
Beecham	42
Blue Circle	38
Boots	19
Bowaters	35
Brit Aerospace	35
Brit. Telecom	22
Burton Ord	21
Cadburys	32
Charter Cons	30
Comm Union	34
Courtaulds	34
FKI Babcock	12
FNFC	23
Gen Accident	85
GEC	13
Glaxo	85
Grand Met	45
GUS 'A'	95
Guardian	85
GKN	28
Hanson	12
Hawker Sidd	48
ICI	72
Jaguar	26
Ladbroke	38
Legal & Gen	25
Lex Service	33
Lloyds Bank	26
Lucas Inds	58
Marks & Spencer	17
Midland Bk	37
Morgan Grenfell	30
NEI	10
Nat West Bk	52
P & O Dfd	52
Plessey	16
Polly Peck	38
Racal Elect	32
RHM	30
Rank Org Ord	64
Reed Intnl	36
STC	24
Sears	11
TI	28
TSB	9
Tesco	14
Thorn EMI	60
Trust Houses	21
T&N	17
Unilever	42
Vickers	14
Wellcome	45

Property

Brit Land	30
Land Securities	52
MEPC	52
Peachey	50

Oils

Brit. Gas	15
Brit Petroleum	24
Burmah Oil	58
Charterhall	3
LASMO	40
Premier	7½
Shell	93
Ultramar	26

Mines

Cons Gold	95
Lonrho	20
RTZ	35

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

London looks to UK bank lending after US trade data

By Colin Millham

THIS WEEK should contain plenty of news to keep dealers on their toes, adding to the events of last week, and possibly providing further evidence on whether there are economic problems ahead for the US and Britain.

Last week was expected to be dull, but despite the usual holiday season lethargy, managed to create quite a stir, as interest rates climbed and the spectre of inflation reared its ugly head.

US trade figures for June will be published tomorrow, and there are several UK economic statistics this week, including July money supply and bank lending on Thursday.

Forecasts for the US trade deficit range between $10bn and $12bn, compared with $10.9bn in May. A figure below $11.5bn will probably be regarded as reasonably good, and may be regarded as another excuse to buy the dollar.

The US currency stalled around DM1.92 last week, and retreated back to DM1.88, but this was largely a technical reaction, after a long period when the dollar has advanced at the expense of the D-Mark.

The main worry in the market is that the US trade figures will steadily worsen in the latter part of the year, and it looks to be a question of whether the dollar will breach DM2.00 in the next month or so, before beginning on another downward course?

Once the US trade news is out of the way, attention in London will turn to the UK money supply and bank lending figures.

The main area of concern is bank lending, amid fears that July lending by banks and building societies (M4), will exceed the record set in June of £8.6bn.

The cut off for mortgage related double tax relief on single homes was the beginning of August, and this probably swelled lending in July.

Proud owners of "F" registration vehicles may have also added to the amount of lending during last month.

A figure in line with June is likely to be greeted with some relief in the City. Last week's surprising rise in UK bank base rates led to suggestions that the authorities already had a good idea how the figures would turn out, and did not not like what they saw.

Stockbroker Phillips & Drew has revised its forecast of M4 lending up to £8bn from £7bn, but this is still on the low side.

James Capel agrees with this figure, but Nomura Research Institute goes for £8.5bn.

ANZ Merchant Bank, Chase Manhattan Gilts, and Kleinwort Grieveson Research, expect £9bn, while Morgan Grenfell, and Warburg Securities forecast £9.5bn.

July unemployment figures will also be announced on Thursday. The market will look at the level of average earnings, for any sign of inflationary pressure.

There is a division of opinion in the City on whether the year-on-year average rise will remain at 8.5 p.c., or rise to 8.75 p.c.

Friday's UK retail prices index for July is also likely to attract more attention than in the recent past, because of fears about inflation.

The monthly rise is expected to be 0.1 p.c. or 0.2 p.c., taking the annual rate of inflation up to 4.8 p.c. or 4.9 p.c., from 4.6 p.c.

Higher mortgage rates are expected to push year-on-year inflation through 5 p.c. in August, with 6 p.c. seen as a possible peak this year.

Apart from the trade news, events claiming attention in the US this week will be the Republican Convention, beginning in New Orleans today, and tomorrow's meeting of the Federal Open Market Committee.

£ IN NEW YORK

Aug.12	Close	Previous Close
£ Spot	1.7135-1.7145	1.7095-1.7105
1 month	0.35-0.33pm	0.38-0.37pm
3 months	1.04-1.02pm	1.12-1.10pm
12 months	3.10-3.00pm	3.25-3.20pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Aug.12	Previous
8.30 am	77.0	76.8
9.00 am	77.0	76.9
10.00 am	77.0	76.8
11.00 am	76.9	76.8
Noon	76.9	76.8
1.00 pm	76.8	76.9
2.00 pm	76.9	76.9
3.00 pm	76.9	76.9
4.00 pm	76.9	76.9

CURRENCY RATES

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Aug.12	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.6565	+2.82	+1.08	±1.5344
Danish Krone	7.85212	7.96901	+1.49	-0.25	±1.5404
German D-Mark	2.05853	2.08202	+1.14	-0.60	±1.0981
French Franc	6.90403	7.06022	+2.26	+0.52	±1.3674
Dutch Guilder	2.31943	2.35057	+1.34	-0.40	±1.5012
Irish Punt	0.768411	0.776444	+1.05	-0.69	±1.6684
Italian Lira	1483.58	1544.22	+4.09	+3.00	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

Aug.12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7065 - 1.7160	1.7145 - 1.7155	0.37-0.34cpm	2.48	1.03-0.98pm	2.34
Canada	2.0880 - 2.0940	2.0910 - 2.0920	0.25-0.15cpm	1.15	0.61-0.48pm	1.04
Netherlands	3.63¾ - 3.64½	3.63½ - 3.64½	1¾-1½cpm	5.36	5¼-4⅞pm	5.49
Belgium	67.25 - 67.80	67.60 - 67.70	31-16cpm	4.17	74-55pm	3.81
Denmark	12.30¾ - 12.36¾	12.35¾ - 12.36¾	3¼-1⅞orepm	2.49	8½-7¼pm	2.53
Ireland	1.1975 - 1.2035	1.2010 - 1.2020	0.34-0.29cpm	3.15	1.18-0.98pm	3.60
W. Germany	3.21¾ - 3.22¾	3.22¼ - 3.22¾	1⅝-1⅜pfpm	5.58	4¾-4½pm	5.74
Portugal	260.30 - 261.75	260.65 - 261.65	19-65cdis	-1.93	97-205dis	-2.31
Spain	211.00 - 212.00	211.05 - 211.35	25-4cpm	0.82	47-24pm	0.67
Italy	2384 - 2393½	2392¼ - 2393¼	2-parlirepm	0.50	2-3dis	0.42

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
1.650	6.15	6.67	7.09	7.94	-	0.86	1.46	2.78
1.675	3.65	4.78	5.35	6.40	0.01	1.51	2.26	3.24
1.700	1.57	3.21	3.88	5.04	0.16	2.25	3.20	4.89
1.725	0.25	2.12	2.72	3.92	1.34	3.56	4.55	6.26
1.750	0.02	1.39	1.94	3.00	3.49	5.22	6.14	7.79
1.775	-	0.82	1.27	2.34	5.97	7.14	7.95	9.38
1.800	-	0.46	0.80	1.83	8.37	9.16	9.84	11.21

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
1.650	5.30	6.00	6.55	7.45	0.30	1.35	2.10	3.60
1.700	1.30	2.35	3.70	4.80	0.75	3.35	4.15	5.90
1.750	0.30	1.25	1.95	2.95	5.00	6.45	7.20	8.90
1.800	0.30	0.60	1.05	1.80	10.00	10.65	11.30	12.55
1.850	0.30	0.40	0.60	1.05	15.00	15.45	25.80	16.70
1.900	0.30	0.30	- -	0.50	11.60	11.70	-	22.30
1.950	0.30	0.40-	-	0.45	16.40	11.40	-	17.60

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.7150	1.7115	1.7050	1.6973	1.6850
D-mark	3.2250	3.2094	3.1786	3.1384	3.0649
French Fr.	10.950	10.947	10.942	10.935	10.924
Swiss Fr.	2.7000	2.6826	2.6506	2.6084	2.5282
Yen	228.25	226.98	224.67	221.38	215.42

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

SWISS FRANC (IMM)
SFr 125,000 $ per SFr

	Close	High	Low	Prev.
Sep	0.6385	0.6390	0.6302	0.6300
Dec	0.6455	0.6465	0.6374	0.6371
Mar	0.6520	0.6525	-	0.6437
Jun	0.6599	-	-	0.6517

STANDARD & POORS 500 INDEX
$500 times index

	Close	High	Low	Prev.
Sep	263.20	263.80	260.50	262.05
Dec	265.80	266.30	263.10	264.60
Mar	268.20	268.70	265.85	267.00
Jun	270.40	271.00	268.70	269.60

BASE LENDING RATES

	%		%		%
ABN Bank	11	City Merchants Bank	11	NatWestminster	11
Adam & Company	11	Clydesdale Bank	11	Northern Bank Ltd	11
AAB - Allied Arab Bk	11	Comm. Bk. N. East	11	Norwich Gen. Trust	11
Allied Irish Bank	11	Co-operative Bank	*11	PRIVATbanken Limited	11
Henry Ansbacher	11	Coutts & Co	11	Provincial Bank PLC	12
ANZ Banking Group	11	Cyprus Popular Bk	11	R. Raphael & Sons	11
Associates Cap Corp	10	Dunbar Bank PLC	11	Roxburghe G'rantee	11½
Authority Bank	11	Duncan Lawrie	11	Royal Bk of Scotland	11
B & C Merchant Bank	11	Equatorial Bank plc	11	Royal Trust Bank	11
Banco de Bilbao	11	Exeter Trust Ltd	11½	Smith & Williamson Secs.	11
Bank Hapoalim	11	Financial & Gen. Sec	10½	Standard Chartered	11
Bank Leumi (UK)	11	First National Bank Plc.	11½	TSB	11
Bank Credit & Comm	11	● Robert Fleming & Co.	11	UDT Mortgage Exp	‡11.45
Bank of Cyprus	11	Robert Fraser & Ptrs.	12	United Bk of Kuwait	11
Bank of Ireland	11	Girobank	11	United Mizrahi Bank	11
Bank of India	11	● Guinness Mahon	11	Unity Trust Bank Plc	11
Bank of Scotland	11	HFC Bank plc	11	Western Trust	11
Banque Belge Ltd	11	● Hambros Bank	11	Westpac Bank Corp.	11
Barclays Bank	11	Heritable & Gen Inv Bk	11	Whiteaway Laidlaw	11½
Benchmark Bank PLC	11	● Hill Samuel	§11	Yorkshire Bank	11
Berliner Bank AG	11	C. Hoare & Co.	11		
Brit. Bk of Mid East	11	Hongkong & Shangh	11		
● Brown Shipley	11	● Leopold Joseph & Sons	11		
Business Mtge Tst	11	Lloyds Bank	11		
CL Bank Nederland	11	Meghraj Bank Ltd	11		
Central Capital	11	Midland Bank	11		
● Charterhouse Bank	11	Mount Bnkg Corp.	11		
Citibank NA	11	Nat Bk. of Kuwait	11		

● Members of British Merchant Banking & Securities Houses Association. * 7 day deposits 4.38% Sarewise 7.16%. Top Tier-£10,000 + instant access 9.0% ‡ Mortgage base rate. § Demand deposit 6%. Mortgage 10.875% - 11.25%

MONEY MARKETS

Bundesbank could face difficulties

A RISE in US and UK interest rates last week could cause problems in West Germany, where the Bundesbank may soon be forced into another round of rate increases.

Day-to-day funds in Frankfurt have reached 5 p.c., in line with the Lombard emergency borrowing rate.

Last week's securities repurchase agreement rate, set at the Bundesbank's tender, was an unchanged 4.25 p.c. There should be no need for another pact this week, because there is no expiring agreement, but there is strong speculation that the Bundesbank will announce another tender.

Last week's allocation of funds was insufficient, when set against the expiring agreement, and money being sucked from the banking system by Bundesbank intervention on the foreign exchanges.

UK clearing bank base lending rate 11 per cent from August 9

The problem of intervention eased towards the end of the week as the D-Mark recovered, but if tomorrow's US trade figures provide encouragement for the dollar, the Bundesbank may be forced to defend the D-Mark again.

Apart from the technical tightening of credit caused by this, the Bundesbank may be more than happy to supply another securities repurchase agreement, in order to signal higher interest rates, and ease pressure on the D-Mark.

Mr Guenter Storch, a member of the Bundesbank Board, was reported to have said at the weekend that in his opinion a rise to 4.50 p.c. in the repurchase rate is out of the question, but some market observers believe the rate could go as high as 4.75 p.c.

MONEY RATES

NEW YORK (4pm)

		Treasury Bills and Bonds			
Prime rate	10	One month	5.66	Three year	8.82
Broker loan rate	9¾-⅞	Two month	6.74	Four year	8.93
Fed. funds	8⅛-¼	Three month	7.24	Five year	9.03
Fed. funds at intervention	-	Six month	7.83	Seven year	9.23
		One year	8.22	10-year	9.36
		Two year	8.65	30-year	9.43

FT LONDON INTERBANK FIXING

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON MONEY RATES

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

EUROPEAN OPTIONS EXCHANGE

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

WORLD STOCK MARKETS

CANADA

TORONTO
Closing prices August 12

MONTREAL
Closing prices August 12

OVER-THE-COUNTER

Nasdaq national market, 2pm prices August 12

Continued from page 29

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

INDICES

NEW YORK DOW JONES

	Aug 12	Aug 11	Aug 10	Aug 9	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	2037.52	2059.30	2034.14	2079.13	2158.61 (5/7)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	88.11	88.18	88.26	88.68	91.25 (3/3)	86.12 (4/1)	—	—
Transport	852.15	849.01	848.57	867.53	908.45 (5/7)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	176.68	177.45	177.39	178.99	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2046.41 (2050.68) Low 2019.38 (2014.05)

STANDARD AND POOR'S	Aug 12	Aug 11	Aug 10	Aug 9	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite‡	262.55	262.75	261.90	266.49	275.66 (22/6)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	301.94	302.26	301.19	306.86	318.54 (22/6)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	24.83	24.79	24.69	25.09	25.54 (3/8)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	148.55	148.60	148.23	150.66	155.35 (22/6)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	296.48	296.74	296.57	301.12	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	378.95	379.11	378.52	384.23	394.77 (18/7)	331.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Aug 5	Jul 29	Jul 22	year ago (approx.)
Dow Industrial Div. Yield	3.53	3.51	3.62	2.54
	Aug 10	Aug 3	Jul 27	year ago (approx.)
S & P Industrial div. yield	3.26	3.11	3.23	2.40
S & P P/E ratio	13.65	14.25	13.74	23.20

TRADING ACTIVITY ‡ Volume

Millions	Aug 12	Aug 11	Aug 10
New York	177.308	173.000	200.950
Amex	8.532	10.736	12.989
OTC	(u)	132.888	136.659

NEW YORK	Aug 12	Aug 11	Aug 10
Issues Traded	1,931	1,975	1,963
Rises	681	638	196
Falls	717	811	1,390
Unchanged	533	526	377
New Highs	2	2	4
New Lows	27	31	24

CANADA

TORONTO	Aug 12	Aug 11	Aug 10	Aug 9	1988 High	1988 Low
Metals & Minerals	2789.9	2785.1	2809.4	2854.5	3226.5 (5/7)	2238.7 (8/2)
Composite	3285.2	3277.9	3275.0	3310.0	3465.4 (5/7)	2977.9 (8/2)
MONTREAL Portfolio	1634.42	1632.56	1631.63	1633.48	1723.71 (5/7)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Wang Mohawk	50,541,500	13¾	—
Panhandle	8,551,000	26⅝	—
Houston Inds	5,153,100	29½	− ½
National Semicond	2,092,200	9¼	− ½
Polaroid	1,591,200	42¼	− 1
AT&T	1,532,000	25¼	− ⅛
Erbamont	1,256,100	26	—
General Electric	1,208,000	40¼	+ ¼
Genentech	1,190,700	20⅝	− 1
Armco	1,086,000	10¼	

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 industrials plus 40 utilities, 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

	Aug. 12	Aug. 11	Aug. 10	Aug. 9	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1623.5	1616.8	1627.4	1657.8	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	819.9	816.8	827.8	847.8	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	198.10	197.50	199.10	199.00	199.10 (10/8)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/84)	4909.10	4864.50	4965.30	5000.60	5043.1 (9/3)	3608.35(4/1)
DENMARK						
Copenhagen SE (3/1/83) ‡	222.87	223.26	223.77	223.93	227.86 (3/8)	180.68 (4/1)
FINLAND						
Unitas General (1975)	756.4	755.9	765.8	770.6	772.1 (8/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	350.7	351.2	(u)	359.1	368.5 (8/7)	251.3 (29/1)
Ind. Tendance (31/12/87)	131.4	130.8	132.8	134.6	137.6 (7/7)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	484.10	480.28	484.70	492.01	495.78 (8/7)	396.40 (29/1)
Commerzbank (1/12/53)	1474.6	1464.9	1479.9	1501.3	1510.4 (8/8)	1207.9 (29/1)
DAX (30/12/87)	1173.56	1168.14	1173.45	1196.79	1199.96 (5/7)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2593.75	2595.28	2579.38	2634.04	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	528.95	523.04	526.77	528.20	545.07 (18/3)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	27833.51	27784.98	27554.87	28170.36	28423.38 (5/8)	21217.04 (4/1)
Tokyo SE New (4/1/68)	2187.04	2189.43	2172.80	2220.29	2253.10 (2/8)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	274.5	271.0	281.0	284.8	284.8 (9/8)	205.7 (4/1)
ANP-CBS Industrial (1970)	232.8	228.0	237.0	239.3	239.3 (9/8)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	404.10	403.38	411.99	414.55	423.64 (21/7)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1132.10	1135.32	1147.96	(c)	1177.87 (8/8)	833.60(4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1291.0	1297.0	1296.0	1294.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	1647.0	1644.0	1655.0	1653.0	1758.0 (20/7)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	293.70	294.49	297.76	300.90	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	3003.27	2973.30	3000.90	3052.70	3112.90 (5/8)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	550.0	548.4	556.4	559.0	559.0 (9/8)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	441.4	438.1	446.9	465.2 (15/6)	401.0 (21/1)

**Saturday August 13: Japan Nikkei (c) and TSE (c)
‡ Subject to official recalculation

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

Closing prices August 12

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
27⅞	14	AAR s	.36	1.5	16	166	24	23½	23⅝	– ⅜
12⅛	8¼	ACMIn	n1.40e	12.		374	11⅞	11¼	11¼	
12⅛	10⅞	ACMSc	n1.26	11.		848	11⅛	11	11⅛	
10⅛	9	ACMSp	n.17e	1.9		257	9⅛	9	9	
27⅝	10½	AGS			20	796	27⅛	26¾	27	+ ¼
7⅞	2⅝	AMCA				50	3⅞	3¼	3⅞	
8⅝	3¼	AM Intl				319	5⅞	5¾	5¾	
29⅞	17	AM Inl pf	2	8.9		84	22⅞	22¼	22⅞	
65½	26¼	AMR			9	945	42⅞	42⅛	42½	– ⅝
11⅞	5¾	ARX			10	11	7⅞	7⅞	7⅞	
70½	38⅝	ASA	3	7.7		1044	39⅛	38⅝	39	
22⅞	9½	AVX	.05e	.3	11	160	18½	18¼	18½	+ ¼
68⅞	40	AbtLab	1.20	2.7	15	2088	45	44⅞	45	– ⅛
27⅛	15⅞	Abitibi g	1			38	17½	17⅜	17½	
18½	8½	AcmeC	.40	3.9		39	10⅜	10¼	10⅜	
10½	6⅝	AcmeE	.32b	4.6	60	6	7	7	7	
20	14⅛	AdaEx	3.05e	20.		118	15⅝	15⅜	15⅝	
24⅞	7½	AMD				3546	12¼	12	12¼	+ ⅛
56¾	29¼	AMD pf	3	8.2		284	37¼	36¼	36⅞	+ ¼
11⅞	4⅝	Adobe				204	7½	7½	7½	
20⅛	16¼	Adob pf	1.84	11.		33	17⅝	17⅝	17⅝	– ⅛
21⅝	17½	Adob pf	2.40	11.		5	21	21	21	– ⅛
12⅞	5⅞	Advest	.12	1.4	16	60	9	8¾	8¾	– ⅛

[illegible]

Continued on Page 29

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quot.	Ch'ge Prev. Close
36	19⅝	XTRA	.72	2.3	13	67	31⅝	31⅛	31⅛	
59⅜	17½	Yorkin			15	170	52⅝	52	52	− ⅝
54	52½	York wd				105	52⅝	d52¼	52¼	− ½
8⅝	2⅛	Zapata				259	2⅜	2¼	2⅜	+ ⅛
37	13½	Zayre	.40	1.8	12	3544	22⅛	21⅝	21⅞	− ⅜
18⅛	8¾	Zemex	.40	3.2	16	14	12⅝	12½	12½	
33⅝	10	ZenithE				655	21⅝	20¾	21⅛	+ ⅛
10⅛	9½	Zenith n	.15e	1.5		238	9¾	9½	9¾	+ ¼
9⅝	1	vjZenLb				551	1⅞	1⅝	1⅞	
21⅛	12¾	ZenNtl	.80b	4.3	9	219	19	18¾	18¾	− ½
20⅜	11⅞	Zero	.40	2.4	15	69	16⅞	16⅝	16⅞	
29⅛	15	Zurnin	.66	3.1	14	133	21⅝	21⅝	21⅝	
11¼	7⅝	Zweig	1.05e	10.		350	10¼	10⅛	10⅛	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

Closing prices August 12

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OVER-THE-COUNTER

Nasdaq national market, Closing prices August 11

Continued on Page 27

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FINANCIAL TIMES
Europe's Business Newspaper

The Business Column

Stoking up the debate on brands

Twenty years ago a strapped-for-cash Swedish engineering group sold the US rights to one of its better-known brand names to a cumbersome US conglomerate. The consideration was reportedly modest, but given the condition of Electrolux at the time, crucial.

Both companies have since prospered. Electrolux is now the biggest appliance maker in the world and Sara Lee, called Consolidated Foods at the time of the deal, is among the cream of North American food groups.

Last year Sara Lee decided that TV dinners and a vacuum cleaner business no longer belonged together and sold its extremely profitable Electrolux operation to a management team. But canny John Bryan, Sara Lee's president, hung on to the Electrolux brand name.

The Swedes tried vainly to buy it back. And there things stand: Bryan with a good hand and steady royalties, while Anders Scharp of Electrolux wonders how he can implement his programme of making a global brand of Electrolux while the name is held hostage in one of his main target markets.

Should the Cadbury chocolate business remain independent long enough to fulfil its new ambitions in the European chocolate market (already overrun by Nestlé, Mars, Ferrero and Jacobs Suchard) it could find itself, like the Swedes, rueing this month's deal in which it surrendered its US business to Hershey.

Contrast this move with Nestlé, which, following the $3bn purchase of Carnation three years ago, is spending extra millions on buying back the licenses and manufacturing and marketing rights which had been sold or leased off around the world. "In today's global environment it is crucial that you have absolute control over your brands," says Nestlé.

This raises interesting questions over the Swiss group's attitude to the brands belonging to its latest acquisition, Rowntree, which are run in the US from the same Hershey stable as Cadbury's.

In the longer term, Cadbury's tactical switch could come to be viewed as expediency, even profligacy.

So, too, could the recent announcement from the West German sports goods company, Puma, that it had sacked its walking billboards Boris Becker and Diego Maradona.

Puma has lost more than £20m in the past two years and in those same two years Becker has failed to win back his Wimbledon title.

Becker and Maradona are unlikely to have trouble finding other sponsors. But where will Puma, in an industry in which brand differentiation and the maintenance of margin premiums depend largely upon personality promotion, find adequate, affordable substitutes? Retrenchment is one thing, digging one's own grave quite another.

These latest moves should help fuel the debate over brands for some time to come. It will certainly not die down as branded goods companies jockey for takeovers and the concepts of a unified European, and even a global, market-place start to gel.

Reckitt and Colman may have shelved its plan to include the value of brands such as Harpic and Steradent in its balance sheet, but GrandMet and others are still assessing similar projects. If a company of any substance does follow this track, others will probably follow.

Imperial Tobacco and United Biscuits may also have started a trend recently when each of them discontinued about 20 lesser names, the better to tend their better-known brands. Bulwark Cut Plug and Country Cookies are no more.

Meanwhile, the world awaits conclusions. All that has emerged so far is that attractive brands command attractive prices. In today's confused conditions it is doubtful whether any company can arrive at a proper valuation of its brands. All that matters in the end is that the aggressors pitch a price which is "right" for shareholders in the target. It is impossible to say whether it is equally "right" for the shareholders of the buying company.

Christopher Parkes

THE MONDAY INTERVIEW

Statesman of the Troubles

Kieran Cooke meets John Hume, leader of Northern Ireland's SDLP

FOR A MAN who has lived in the midst of one of Northern Ireland's worst trouble spots over the last 20 years, John Hume is a remarkably relaxed individual.

His home in the heart of Londonderry's Bogside has been attacked nine times in the past five years. Last year, a group described by him as "headbangers" threw firebombs. Two cars have been burnt out. Yet, unlike other Northern Ireland politicians, Mr Hume has no bodyguard, nor does he carry a gun. "It would be wrong to be armed and at the same time be preaching non-violence. Any policeman that was guarding me would be murdered. I'm not worth that."

The last months have seen a particularly gruesome catalogue of murder and mayhem in Northern Ireland, including the bombing at Enniskillen in which 11 civilians were killed. In March, after the murder of two off-duty British soldiers at an IRA funeral, television pictures of the killing were flashed around the world.

Yet despite the rising death toll, John Hume is more optimistic than ever about Northern Ireland's future. The 1985 Anglo-Irish agreement between the London and Dublin Governments is fundamental to a new climate of change in the province, he says.

"The agreement has made people sit up and face reality. It is the most significant development since 1920 (when the British set up a separate Parliament in Belfast). To Unionists it signifies that the ascendancy and their control over all aspects of the North's affairs is finally over. To Nationalists, both north and south of the Irish border, it brings home the message that if Irish unity is to be established, the Unionists have to be accomodated."

The Agreement has also acted as a vital safety valve. "This year we've had the Stalker business, the events in Gibraltar, the cemetery shootings — a series of incidents which in the past would have led to riots. The level of street activity is nothing like 10 years ago. Instead, people are now standing back and saying 'What will Dublin do? What will London do?'"

Mr Hume has been called the statesman of Northern Ireland's Troubles. "I believe there is now a deep feeling on both sides of the community that the problems be settled. The accommodation of differences is the only basis for future peace and stability in our society.

"Central to a solution is the relationship between the Unionists and the rest of Ireland. The Unionists have to talk to Dublin. If they did that it would all be over. It's so simple."

Mr Hume has been called naive and branded a political opportunist. But many would admit that he has emerged from 20 years of "the Troubles" as Northern Ireland's premier politician.

PERSONAL FILE

1937 Born Londonderry. Education: St Patrick's College, Maynooth
1960 Joint founder Derry Credit Union
1967 Joint founder, Derry Housing Association
1968 Vice Chairman, Derry Citizens Action Committee
1969 Elected as independent for Foyle constituency to Stormont Assembly
1970 Founder member SDLP
1973 Elected Deputy Leader SDLP
1979 Elected to European Parliament
1979 Elected leader SDLP
1983 Elected Westminster MP for Foyle

Mr Hume is a Catholic with a small "c", enmeshed in the political and social fabric of his native Londonderry. But he also has an international perspective. "The Irish are too incestuous, too inward looking. We cannot remain just sitting here contemplating our navels. The world is passing us by."

Mr Hume is one of Britain's best known MPs abroad. Since the late 1960s he has built up strong contacts with politicians in the US. At the recent Democratic Convention in Atlanta he could be seen making introductions for his less worldly Westminster colleagues. He is an old and close friend of Mr Dukakis. A former French teacher and a Francophile, Mr Hume is a familiar figure in France and has just finished a series on Northern Ireland for French television.

Elected to the European Parliament in 1979, Mr Hume became one of its most active members. He feels the Single European Market in 1992 will have a dramatic impact on Ireland, both north and south. "Everything will change. What about the border then? There will have to be harmonisation of both parts of the island. So many of the divisions will have to go. Full integration into Europe will inevitably broaden and dilute the the Northern Ireland problem."

Mr Hume remains the quintessential Irish politician. He revels in a chat and "the crack" (a joke or story, usually of considerable duration). He enjoys a drink. His family is central to his life. His wife Pat runs his office in Londonderry and organises what on the surface appears to be the rather disorganised life of her husband.

John Hume is the oldest of seven children, born in the *poor north side of* Londonderry, or Derry as the city is always referred to by Catholics. "My father was unemployed for 20 years. We were four to a room." One branch of the family had been Presbyterians immigrants from Scotland.

He started life by training for the priesthood but then turned to teaching. His first foray into the public arena came in the early 1960s when he helped found the first branch in Northern Ireland of the Credit Union, a co-operative bank which pooled funds to help people with daily needs, particularly over housing. "In Derry we only had a start up capital of £5. Now the Credit Union has branches throughout northern and southern Ireland and in Derry alone has 12,000 members and savings of £5m. The bank is in the heart of the Bogside yet has never been touched by the paramilitaries."

In the mid-1960s Mr Hume set up a firm which smoked and marketed salmon from Lough Foyle near Londonderry. Mr Hume still boasts that the salmon waters around his native city are the richest in Western Europe. He once surprised a group of European MPs at a Brussels banquet by placing four fresh Northern Ireland salmon on the table.

'It would be wrong to be armed and at the same time preach non-violence'

Londonderry was the setting for the start of the present "Troubles" in Northern Ireland. Civil Rights marches in the late 1960s, inspired in part by similar events in the US, eventually led to serious confrontations with the authorities. Catholics vented their anger about job and housing discrimination. Elected to the Northern Ireland Assembly in 1969 and a founder member of the Social, Democratic and Labour Party in 1970, John Hume was at the forefront of events which quickly took on national and international dimensions.

He narrowly escaped death at a demonstration in Londonderry in 1971. A year later he tried to calm people after the events of "Bloody Sunday" when 13 of his constituents were shot dead by British paratroopers. Despite all the killings of the last 20 years, Mr Hume feels there have been many positive achievements. "Derry would not be recognised compared to 20 years ago. The housing situation has been transformed. The old political gerrymandering, used by the Unionists to cling to power, is gone. The one thing that is still there is unemployment." Londonderry, which is 70 per cent Catholic, has an unemployment rate of 30 per cent. In parts of the Bogside more than 50 per cent are out of work.

Mr Hume's constituency has the highest unemployment rate in the UK. "Violence has done tremendous damage on both sides of the border. We calculate that it has cost the two economies £11bn. In Northern Ireland alone 39,000 jobs have been lost."

Mr Hume, as leader of SDLP, has been bitterly criticised, particularly by Unionist politicians, for his recent talks with Sinn Fein, the IRA's political wing. "The talks will continue. We cannot just remain in the trenches. I want to exhaust all possibilities. We are not engaged in negotiations with them about ceasefires or anything else, only discussions."

Mr Hume feels the IRA are symptomatic of an Irish inability to come to terms with the past. "We have been handed down the simplicities of the past, among them the idea of dying for Ireland, not living for it. That's translated very quickly into killing for Ireland. The IRA are theologians, not politicians. They see themselves as keepers of the Holy Grail of Irish freedom. I say to them that when you start killing people you kill your country. If the IRA continues its campaign it will go down in history as the group that made Irish unity impossible."

More than 50 per cent of those killed in Northern Ireland in the past 20 years have been civilians, says Mr Hume. Of those, more than 60 per cent were Catholics. "The real victims of violence are our own people. Sinn Fein and the IRA say the British troops must leave. That is the road to chaos. I say that the people of Ireland must be united first. Then anything is possible."

The Unionists, says Mr Hume, have never effectively stated their case. "They do have a very definite case. Yet they have never articulated it properly. They have always clung to the status quo and, up to the Anglo-Irish agreement, London always gave in to Unionist intransigence. It was like the old Unionist slogan: 'To hell with the future, long live the past. May God in his mercy be kind to Belfast.'"

While Mr Hume has often been deeply critical of Mrs Thatcher policies in Northern Ireland, particularly over the hunger strikes in the early 1980s, he feels only a strong Conservative Prime Minister could have gone ahead with the Anglo-Irish Agreement.

"She was able to keep her own troops in order. If the Tories had been in opposition they would never have allowed such an accommodation to take place." Mr Hume is very fond of the word accommodation. He also uses the phrase "a healing process" a great deal.

"Both sides in Ireland have to recognise the differences that exist and come to terms with them," he says. "Unity in diversity is the key to the whole Irish question. It will take time. We are in for a long, slow plod, not any fancy packages or supposed miracle solutions. Northern Ireland is not like that."

More haste and speed

JUSTINIAN

It is a truism to state that any distance in time from the moment of a disputed event until its resolution, by whatever may be the appropriate legal process, is likely to leave a stain on the quality of justice ultimately administered.

Administrators of court systems — be they judges or civil servants — are always alert to avoid the perennial charge of the law's delays. They cautiously hasten cases on their way to a just conclusion, ever conscious of the need to safeguard the rights and interests of the parties both against over-hasty procedures or the delaying tactics of one or other of the parties. A rush to judgment is as much an evil as delayed justice.

Delays in the legal process are, however, not just those that emanate from the creaking of the rusted hinges of judicial administration. They happen at the extremities of the legal process, for which court administrators cannot, or ought not to be blamed.

Two aspects of such delayed justice were publicly exposed last week: one concerned the desire to bring offenders to court almost instantaneously with their offences; the other concerned the High Court judge who has deferred the delivery of a judgment for an inordinate length of time.

The Home Secretary has issued guidelines to magistrates to dispense speedy justice to those who have committed public order offences. The urge is to get courts to deal with culprits engaged in hooliganism, vandalism, and drunkenness within days, rather than weeks or even months, of their crime.

Mr Hurd thinks that the quickening of the judicial process can have an added deterrent effect on re-offending and, at the same time, will demonstrate to like-minded potential offenders that "this sort of behaviour is not to be tolerated."

The civil liberties lobby has countered the proposal for swift justice by pointing to the danger of miscarriages of justice. Their protestation is not just an automatic, predictable response. Public order offences, which by definition often involve large numbers of individuals engaged in joint and common action, are the most notorious for producing wrong identification.

The ability to single out those who are actively participating in such a criminal event requires painstaking investigation by the police and a prosecuting authority, and demands ample opportunity for legal representatives to advise and defend their clients. The recent spate of prosecutions of football hooligans that had to be abandoned because of dubious police investigation is an example of the complexities.

There is a dubiety in any event about the heightened deterrent effect of speedy justice. No doubt there is virtue in quick action by the law. The sooner a naughty child receives his punishment, the more he perceives that the penalty fits the crime. But where it is the state inflicting the penal sanction on an offender, the impersonal and ephemeral nature of the relationship detracts severely from notions of deterrence.

If the idea is simply to demonstrate the official desire for a quick resolution of the criminal charge against the offender, irrespective of the penalty for conviction, there is something to be gained.

But, since the criminal process is primarily concerned with affixing criminal responsibility with a view to inflicting a penal sanction, the Home Secretary will be better directed to asking himself the question: Is the criminal justice system an appropriate way of exercising social control over publicly unacceptable conduct? It is a question that leading criminologists for some time have tended to answer in the negative.

It is one of the outstanding virtues of the English legal system that its judges do not daily over their judgments. However long a case has taken to come to trial, there is little or no delay in the court proceeding to judgment, once the evidence has been concluded. Even in the Court of Appeal, at least two thirds of all judgments are delivered *ex tempore* — that is, they are handed down immediately the oral argument, shortened by the increasing use of written brief, ends.

Even when judges reserve their judgments, the average time spent in composing them before delivery is usually four to six weeks. Occasionally, in a difficult case, the parties may have to wait three or four months; delay is invariably no more than six months. When a judge holds up his decision for more than a year, it is an occurrence of such rarity that eyebrows are inevitably raised.

The revelation in yesterday's Observer that Mr Justice Harman, a judge of the Chancery division since 1982, has reserved his judgment in a tax case for nearly two years is astonishing. The remedy for such a state of affairs is not easy to find. The affected parties cannot go to the Court of Appeal, because there is no order of a lower court to appeal against. Judicial review, moreover, lies only against an inferior court. High Court judges cannot be brought to book by that mode of challenge.

What then? Informal pressures may sometimes work. The same judge, two years ago, had similarly delayed for many months a judgment in a copyright case, to the increasing infuriation of the parties. After they had regularly complained to the judge's clerk, the latter took the matter in hand. He listed the case for judgment the following week. The judge desperately completed his judgment over a weekend, to everyone's relief. Clerks have their uses.